



Commonwealth of Pennsylvania

**Privatization Analysis of the  
Pennsylvania Wine and Spirits Industry**

March 19, 1997

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# **Privatization Analysis of the Pennsylvania Wine and Spirits Industry**

**Final Report  
March 19, 1997**

The financial projections contained in this report were prepared based on the assumptions outlined herein. They have been prepared for the use of the Commonwealth of Pennsylvania in its decision-making process and should not be relied upon by outside parties in any investment analysis. We have relied on data and assumptions provided by a variety of sources (including the Pennsylvania Liquor Control Board and the Commonwealth of Pennsylvania) in developing these projections. We believe these data and assumptions to be accurate, but we have performed no independent study or audit to verify their accuracy. Furthermore, many of the assumptions contained in the report were developed based on the privatization experiences of other states. While we have made efforts to ensure their applicability to Pennsylvania, further analysis may be needed to develop more definitive results once a preferred policy approach to privatization is developed. Finally, due to the inherent uncertainties surrounding projections, some assumptions used to develop the projections may not be realized and unanticipated events and circumstances may occur. Therefore, the actual results will vary from the projections, and such variations may be material.



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## 1.0 Executive Summary

This report examines the potential proceeds to the Commonwealth of Pennsylvania and associated economic effects from the privatization of the Pennsylvania wine and spirits industry. Price Waterhouse LLC was asked by the Commonwealth to prepare an independent, broad-based analysis of the likely financial impacts of privatization using a variety of assumptions and privatization approaches. Because of the broad nature of this request, we examined recent privatization efforts in the alcohol wholesale and retail industries in several states and Canada to help us develop both the approaches and associated operating characteristics used in this analysis. These privatizations have been conducted through a variety of approaches, ranging from franchise auctions to license systems. As we proceeded through this process, however, the specific scenarios considered in our analysis were tailored, to the extent possible, to more closely correspond to conditions within Pennsylvania. Please note that our review of options for the privatization of Pennsylvania's wine and spirits industry incorporates the financial implications of continued enforcement and education efforts, but does not include a more detailed analysis of these areas.

### 1.1 Background

The Pennsylvania Liquor Control Board (PLCB) has been responsible for the wholesale and retail distribution of wine and spirits within the Commonwealth since the adoption of the Twenty First Amendment to the U.S. Constitution repealing Prohibition in 1933. As such, the PLCB manages and controls the purchasing, warehousing, delivery, consumer pricing, advertising and sale of all wine and spirits in the Commonwealth.

In general, states can be grouped into two major categories, control states and license states. Given the current role of the PLCB, Pennsylvania is an example of a state with a high degree of control over the wholesale and retail distribution of alcohol. The two major systems are defined as follows:

- *"control" systems* where the state sells alcohol at the wholesale and/or retail level through a state-owned and operated system;<sup>1</sup>
- *"license" or "open" systems* where the state grants retail licenses to private distributors to sell alcohol.

There are currently 33 open states in the United States.<sup>2</sup> Over the past several years the national trend has been toward less control at the individual state level. There have been a wide variety of reasons that states have cited as justifications for privatizing their liquor systems. Among these are the following:

- *Financial:* As budgets have tightened over the past several years, states have increasingly looked for alternative sources of revenues. Liquor wholesale and retail distribution systems represent a valuable asset that can be transferred to the private sector, generating significant proceeds.
- *Elimination of Public-Sector Inefficiencies:* It is generally the case that privatization efforts have resulted in substantial operational cost savings in the wholesale and retail industries. These efficiency gains (often stemming from the introduction of competition) exert downward pressure on consumer prices. Furthermore, competition often provides non-financial benefits for consumers, including increased store hours, superior geographic locations, and improved product selection.

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<sup>1</sup> Several states have hybrid wholesale/retail systems where the state remains in control of the wholesale function while licensing the retail function.

<sup>2</sup> This number includes the District of Columbia.

## Privatization Analysis of the Pennsylvania Wine and Spirits Industry

- *Philosophical:* Many states entered the alcohol distribution market immediately after the repeal of Prohibition when there was widespread belief that alcohol sales should be curtailed through state control. Currently, the common view is that alcohol distribution should be regulated, but that the government has no compelling cause for maintaining direct control and ownership.

It is against this backdrop of national trends towards privatization that the Commonwealth of Pennsylvania is investigating the feasibility of privatization of the wine and spirits industry.

### 1.2 Privatization Scenario Analysis

The analysis contained in this report assesses the impact of privatization on the cash flows to the Commonwealth under the following scenarios:

Privatization Options for the Pennsylvania Wine and Spirits Industries		
	Privatization of Wine and Spirits	Privatization of Wine Only
<b>Wholesale / Retail Privatization Scenarios</b>		
Wholesale / Retail Licenses	x	
Initial Public Offering (IPO) with Retail Franchising	x	
Initial Public Offering (IPO) with Retail Licensing	x	
<b>Retail Privatization Scenarios</b>		
License System - Low Control	x	x
License System - Medium Control	x	
License System - High Control	x	x
License System - Price Neutral	x	
Franchise System - Low Markup	x	x
Franchise System - Medium Markup (1,500 Stores)	x	
Franchise System - Medium Markup (665 Stores)	x	
Franchise System - High Markup	x	x
Franchise System - Price Neutral	x	
Franchise System - Current PLCB Markups	x	
Franchise System - Royalty (28.8% F.V.)	x	
Franchise System - Royalty (40% F.V.)	x	
Agency Store System - Low Commission	x	x
Agency Store System - Medium Commission	x	
Agency Store System - High Commission	x	

Beer distribution was not considered in any of this scenario analysis since it is already sold through private distributors.

The PLCB currently operates both retail and wholesale functions of the wine and spirits industry. In the retail privatization cases, the PLCB would continue to operate the wholesale function, but would no longer directly control the retail function. In the wholesale privatization cases, the PLCB would no longer directly run either the wholesale or retail functions.



Under the retail privatization scenarios, we examined three general types of privatization approaches, assuming that the PLCB maintains its current wholesale operations and exits the retail market by closing its "state stores":

- *License Systems:* Under these scenarios, the PLCB will grant retail licenses (generating annual license fees) to retailers, who will then be free to set their own markups/prices. The level of control that the PLCB would exert over the type and number of stores could vary significantly. In the "Low Control" scenarios, the PLCB would grant a (potentially) unlimited number of licenses, although the actual number will be determined by market conditions. Possible licensees include grocery stores, current Pennsylvania beer distributors, and other existing or new retail establishments. Under the "High Control" scenarios, the PLCB would grant licenses to only those establishments which derive a large percentage of their revenues from the sale of wine and/or spirits, thus eliminating the possibility for wine or spirits sales in an existing grocery store or pharmacy.

The License System scenarios are modeled after the privatization experiences of Iowa and Alberta, Canada.

- *Franchise Systems:* Under these scenarios, the PLCB will sell franchise rights to wine and/or spirits retailers, thereby generating "up front" franchise fees. As in the license system cases described above, these franchisees would be free to set their own retail markups/prices, but the PLCB would set wholesale markups. There is a wide range of markups among the Franchise scenarios. In the lowest case, the resulting prices for spirits are estimated to be more than 15 percent below status quo levels; whereas, in the highest case, they are expected to rise by over 23 percent. In all but one case, we assumed that the number of franchises would approximately equal the current number of state stores operated by the PLCB.

The Franchise System scenarios are modeled after the privatization experience of West Virginia.

- *Agency Store System:* Under these scenarios, the PLCB would maintain its current wholesale and retail pricing structure, but it would exit the retail business. Instead of operating state stores, the PLCB would pay retailers a fixed commission on sales. Retailers may come from a variety of sources depending on the commission levels that the PLCB would pay and the regulations it would set, but the PLCB would be able to control the number of agents used to sell wine and spirits. This situation allows the PLCB to still maintain some control over delivery to the consumer while allowing it to exit the retail business.

The Agency Store scenarios are modeled after the recent Ohio privatization experience.

Five of the retail privatization cases are also analyzed as "wine-only" cases. In these scenarios, the Commonwealth would continue to distribute spirits through the state store system, but would give wine distribution responsibilities over to private retailers.

For the wholesale/retail privatization cases, we assumed that the PLCB would exit both the wholesale and retail sides of the business. The PLCB would continue to exist, however, performing such duties as licensing and running public health and safety programs. In analyzing the options for wholesale/retail privatization, we constructed two general scenarios:

- *Wholesale/Retail Licensing:* In this case, we assumed that the PLCB would sell both wholesale and retail licenses (limited only by market conditions), thereby generating annual licensing revenues for the PLCB. Both wholesale and final retail prices would be determined by supply and demand conditions. The Commonwealth would continue to receive tax revenues, although we assumed that the current value-based excise

This case is similar to the current systems of New York and New Jersey.

formula would be changed to a volume-based formula, as is currently done in each of the 32 states that have private wholesalers.<sup>3</sup>

- *Initial Public Offerings (IPOs):* In these cases, we assumed that the Commonwealth would convert the entire wholesale/retail system to a state-owned corporation, and then sell off ownership of this corporation through an initial public offering (IPO) of stock. This sale generates initial cash flows to the Commonwealth equal to the value of the "exclusivity-right" to investors. Under the license system, the IPO corporation would then grant licenses to retailers to distribute wine and spirits, appropriating the resulting license fees (in contrast to the retail-only privatization cases discussed above, where these fees would accrue to the PLCB/Commonwealth). Under the franchise system, the IPO corporation would auction off franchises to retailers, again obtaining franchise fees. In both cases, the Commonwealth would continue to collect taxes, although the amount of these taxes may vary considerably from current levels.

The development of each of these cases are described in greater detail in the Section III of this report.

### **1.3 Financial Impacts**

In any scenario, the privatization of PLCB operations will have several financial and economic effects. The following major areas are investigated in this study:

- *Effects of Privatization Options on Consumer Prices:* Depending on the option chosen, and the associated retail and wholesale markups assumed, prices could either rise, fall, or remain unchanged after privatization.
- *Effects on Availability/Sales:* Some privatization options considered in the report envision a change in the number and type of retail outlets in which wine and spirits are sold. Such changes may have effects on retail markups, prices, and hence, sales.
- *Total Cash Flows to the Commonwealth:* The Commonwealth government receives benefits from the PLCB in the form of tax revenue, drug and alcohol awareness programs, alcohol enforcement costs of the State Police, and net transfers from the PLCB. In addition, the local governments within the Commonwealth receive financial benefit in the form of local sales taxes and license fees to the municipalities. These revenue streams to the state and local governments may also be affected by privatization.

These privatization scenarios yield several insights into financial and policy tradeoffs that will be important in the policy decision-making process. Depending on the privatization approach that is finally chosen by the Commonwealth, results on the effect of markups, the effect of prices on sales, the effect of the number and type of outlets, and the effect of the timing of cashflows will all need to be considered. The following discussion illustrates these effects through the use of example results. For the final results of all scenarios, refer to Section III of this report.

#### *Effects of Markups:*

Markups are among the most critical elements in the analysis. Not only do they have a direct impact on prices, revenues, and profits, but they also are instrumental in determining the overall value of the PLCB in the privatization scenarios. In almost all of the retail and wholesale/retail privatization scenarios presented in this report (except for the agency store cases), the PLCB gives up the right to set retail markups because it is assumed to exit the retail business. The wholesale markup, however, is a

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<sup>3</sup> We did not analyze a wholesale/retail franchise system, as no other state utilizes such a system and comparable data/assumptions would be problematic to develop. Resulting financial impacts of privatization would be highly uncertain at best.



different issue – under the retail-only privatization scenarios, the PLCB is assumed to maintain control over wholesale markups. Under the wholesale/retail privatization cases, however, the PLCB gives up control over markups (and therefore, final retail prices) to private wholesalers (single wholesaler in the IPO cases or a group of wholesalers in the franchise case).

In the retail-only privatization cases, it is relatively easy to see how important the wholesale price charged by the PLCB is to the outcome of the privatization, as illustrated in the following table.

<b>Effects of Wholesale Markups on Transfers to Commonwealth Government (Post-Privatization)</b>		
	<b>Wholesale Markup</b>	<b>Ten-Year Sum of Transfers</b>
Franchise System - Low Markup	8%	\$2,218 million
Franchise System - High Markup	27%	\$3,151 million

This table dramatically shows the sensitivity of overall transfers to the Commonwealth government to changes in wholesale markups after privatization. Furthermore, this wholesale markup has direct effects on final retail prices and indirect effects on tax revenues and sales levels (see below). The wholesale markup is an important and valuable "lever" that can be used by the PLCB to influence the outcome of several financial parameters in a post-privatization market.

In the wholesale/retail privatization cases under IPOs, the PLCB gives up this lever, but obtains significant compensation in the form of IPO proceeds. In effect, the real asset that the Commonwealth is selling in the IPO is the monopoly right to set this wholesale markup. This is the parameter that has the most impact on the value of the market to the IPO's investors, and therefore, the proceeds that the Commonwealth would realize from an IPO.<sup>4</sup> If the Commonwealth grants exclusive wholesale market rights to a single company through an IPO, then the sale proceeds will be maximized.<sup>5</sup> If, however, the Commonwealth grants many wholesale licenses, then wholesalers will only be willing to pay relatively low up front fees (as shown in the wholesale/retail franchise case). Therefore, the right to set a wholesale markup is a valuable asset to the PLCB even in the wholesale/retail privatization cases.

#### *Effects of Prices on Sales:*

Prices affect sales through an elasticity effect. Simply stated, as prices rise (fall), sales fall (rise). The measure of this relationship is the "price elasticity of demand". In our analysis, we have assumed an elasticity of -0.76 for spirits and -0.67 for wine (see Appendix I for the research and development of these elasticities). As prices for wine increase by 10 percent, demand for wine will fall by 6.7 percent. Therefore, in our model, as prices rise or fall, demand/sales will change proportionately.

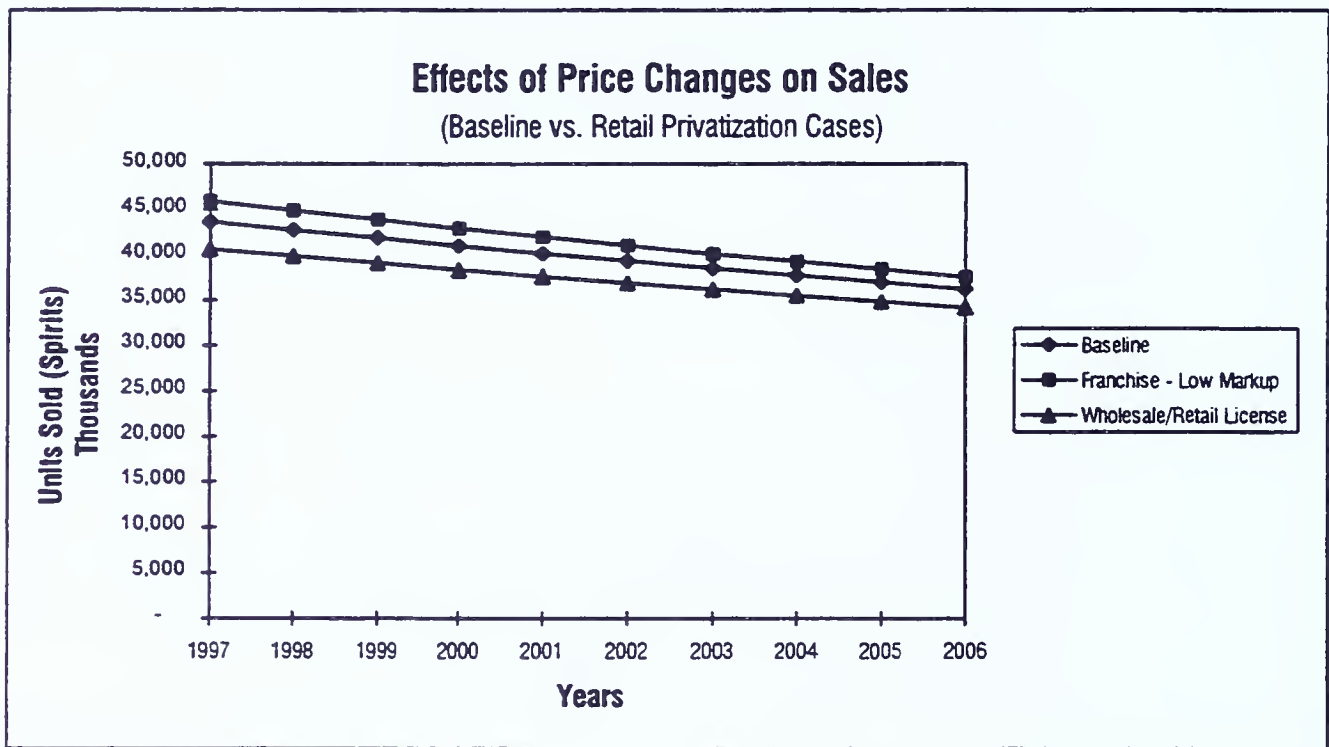
It is important to note, however, that even though we include elasticity effects in our model, the final financial results across scenarios are not particularly sensitive to changes in prices or sales. Furthermore, sales levels do not change dramatically across privatization scenarios. This is because

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<sup>4</sup> By granting an IPO this monopoly, the Commonwealth will have to institute some form of price regulation to protect against monopoly pricing abuses. We have assumed relatively low price increases post-privatization in our IPO cases and included appropriate costs for price regulation by the PLCB.

<sup>5</sup> There may be anti-trust issues associated with selling a monopoly right to a single investor.

the wine and spirits elasticities we developed based on our industry studies are relatively low. Low elasticities for wine and spirits may be reasonable to expect given their unique characteristics. For example, the purchasing habits for those activities that are associated with alcoholic beverages, such as weddings or holiday gatherings, are unlikely to change even when prices change due to a lack of true substitutes. The impact of price changes on wine and spirits are therefore likely to be less pronounced than on many other common products. The following graph provides an illustration of this result.



This graph shows spirits sales levels for the Baseline case, as well as a case with a large price increase for spirits (Wholesale/Retail Licensing, 9.09 percent initial increase) and a case with a large price decrease for spirits (Franchise - Low Markup, 6.89 percent initial decrease). Although the sales levels are different, they fluctuate around a fairly narrow band (i.e., plus or minus approximately 6 percent from the Baseline case). Furthermore, these are relatively extreme cases – most of the price and sales changes across the privatization cases are even less dramatic. These results indicate that there should not be a dramatic change in sales after privatization in the scenarios that we have analyzed. Furthermore, our analysis does not include any price/sales effect for cross border sales even though it is likely that a decrease in Pennsylvania wine and spirits prices would decrease the incentive to buy in other states.

### *Effects of Number of Outlets:*

The effects of increases in the availability of alcohol on sales are controversial. Most post-privatization studies have shown no significant relationship between availability (measured by both the number of retail outlets and the types of outlets) and sales (see Appendix I for a review of these studies). Therefore, we have assumed no *direct* relationship between sales and the number of retail outlets in our model.

We have, however, assumed an important *indirect* relationship in our analysis. This indirect relationship between sales and the number of retail outlets can be seen through the price-sales relationship discussed above. Specifically, we have assumed that as the number of retail outlets increases, retail markups will decline, resulting in lower consumer prices (all else being equal). There are two reasons

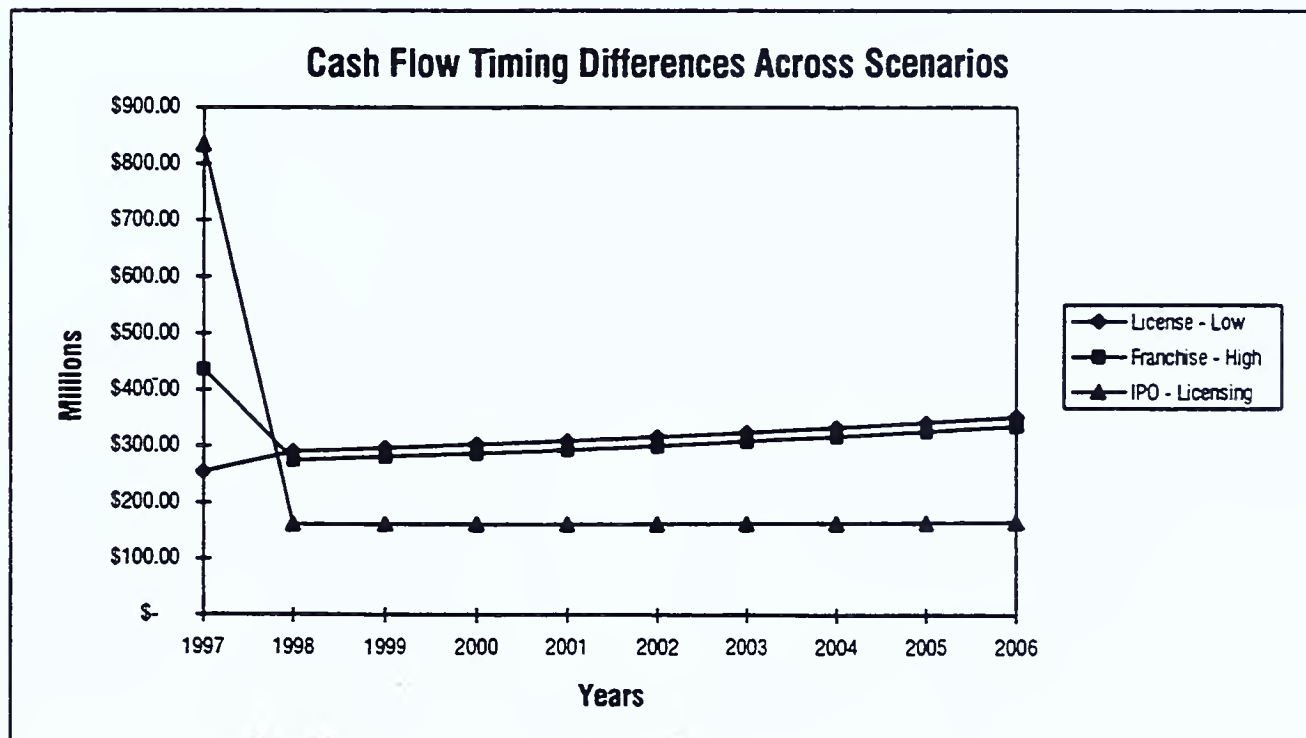


for this assumption. First, as the number of outlets rises, price competition among retailers will increase, leading to lower markups. Second, if the number of outlets increases dramatically through the sales of wine and spirits in supermarkets and convenience stores, retailers will be able to spread their fixed costs across a greater number of products besides wine and spirits, thereby lowering required retail markups.

As noted above, as prices decrease as a result of lower retail markups, sales increase. Therefore, all else being equal, our model assumes that as the number of outlets increase and the types of outlets change (i.e., a general increase in availability), sales will increase through price effects. However, as discussed above, these price effects are relatively small, and we do not believe that sales will increase dramatically in any of the privatization scenarios we have analyzed. To ensure that we have not underestimated the effect of availability on sales, we also performed sensitivity analysis. Our analysis (detailed in Appendix I) shows that even with the highest reasonable assumption of elasticity availability, the overall increase in sales is only approximately 1 percent.

### *Effects of Timing of Cash Flows:*

There are three general types of privatization options that we examine: license systems (retail and/or wholesale); franchise systems (retail and/or wholesale); and IPO approaches (wholesale only). Each of these approaches imply very different timings in terms of cash flows to the Commonwealth. License systems generate steady long-term transfers to the Commonwealth. IPO approaches generate significant up-front transfers, but exhibit substantially lower long-term ongoing cash flows. Franchise systems contain positive aspects of both these approaches, generating relatively high up-front transfers without sacrificing long-term ongoing cash flows. These three types of scenarios are illustrated in the following graph.



In this chart, we have presented three different scenarios with roughly similar 10-year totals for Commonwealth transfers, but with very different cash flow timing structures. The decision concerning which timing approach is preferable rests on the proposed uses of the funds, assuming that 10-year totals are roughly comparable. If the Commonwealth has an immediate value-added use for the funds

from privatization, then it may prefer an IPO option (although in general, the IPO options have lower long-term revenue benefits). If the Commonwealth desires steady long-term transfers, then it may prefer a license system. The franchise approach combines positive elements of both approaches (i.e., significant up-front proceeds from franchise fees and significant ongoing transfers to the Commonwealth).

#### **1.4 Scenario Results**

Exhibit I on pages 10 and 11 presents summary Commonwealth government revenue streams for the Baseline case and each of the privatization scenarios we analyzed for the commonwealth. We started with a broad based approach based on the experience of other states. Then, working with officials from the Governor's office, we developed additional scenarios to reflect the unique characteristics of Pennsylvania. The Baseline case demonstrates the expected future revenues assuming no changes were made to the current structure of the wine and spirits industry in the Commonwealth and is provided as a basis for comparison to the privatization options. The revenue streams exhibited for both the Baseline and the privatization scenarios are comprised of sales taxes, excise taxes, PLCB transfers, as well as funding transfers for enforcement and alcohol education. Details of the financial results of these scenarios are described in Section III and Appendix II of this report.

It is important to note that it is both misleading and inappropriate to compare these scenarios based solely on the cash flow results. Each of the scenarios is based on a different set of assumptions, modeled largely on the recent privatization experiences of other states. For example, the assumptions used to generate the License System - Low Control scenario are very different from the assumptions used to create the Franchise System - Low Markup case. Specifically, the assumed wholesale markup is very different in the two cases, ranging from 8 percent to 27 percent. These different assumptions generate very different financial results, as evidenced by the wide range of 10-year sums under the two scenarios. Until other effects such as a change in the number and type of outlets or a change in price can be examined, it would be inappropriate to conclude that the former case (i.e., "License") is "better" than the latter case (i.e., "Franchise") merely because of the higher revenue streams. The amounts may be markedly different because the assumptions that were used to develop these cases are so different.

With these caveats in mind, these results should only be used as a general "road map" for policy makers within the Commonwealth to determine likely financial effects of privatization options under different scenarios, and not to determine the "optimal" approach to privatization. As noted above, once a particular approach is determined (based on public policy as well as financial considerations), the model can be optimized to determine the most likely financial results under that scenario using a variety of assumptions that may differ significantly from those used in this report. For just this reason, we have presented a wide range of options for consideration.

Given the need for ongoing discussion and development of options based on policy considerations, the results of this report form the basis of a work in progress. Additional analysis will need to be performed to develop specific operating characteristics and models that are tailored to the particulars of the Pennsylvania market. Where possible, we have adjusted the assumptions derived from the privatization experiences of other states to reflect conditions in Pennsylvania. However, we have only used "broad-based" assumptions in many areas. Once a preferred approach to privatization is selected by the Commonwealth, additional analysis will need to be performed to adjust the assumptions to more closely represent Pennsylvania's demographics and commercial environment.

# Exhibit 1

## Comparisons of Revenues to State Government (\$ millions) - Privatization Cases vs. Baseline

Scenario	1997	1998	1999	2000	2001	2002	2003	2004	2005	2008	10 Year Total
Baseline	\$ 240.02	\$ 241.44	\$ 243.16	\$ 245.17	\$ 247.18	\$ 249.61	\$ 252.51	\$ 255.94	\$ 259.98	\$ 284.89	\$ 2,499.71
Wholesale/Retail Licensing Difference from Baseline	\$ 203.38 \$ (36.65)	\$ 179.27 \$ (62.17)	\$ 179.88 \$ (63.28)	\$ 180.67 \$ (64.50)	\$ 181.67 \$ (65.51)	\$ 182.89 \$ (66.72)	\$ 184.36 \$ (68.15)	\$ 186.10 \$ (69.84)	\$ 188.15 \$ (71.83)	\$ 190.53 \$ (74.18)	\$ 1,856.90 \$ (842.80)
IPO with Retail Licensing Difference from Baseline	\$ 832.52 \$ 592.50	\$ 159.23 \$ (82.21)	\$ 159.24 \$ (83.93)	\$ 159.34 \$ (85.83)	\$ 159.57 \$ (87.61)	\$ 159.92 \$ (89.69)	\$ 180.41 \$ (92.10)	\$ 161.05 \$ (94.89)	\$ 161.88 \$ (98.12)	\$ 162.85 \$ (101.84)	\$ 2,276.00 \$ (223.71)
IPO with Retail Franchising Difference from Baseline	\$ 791.25 \$ 551.23	\$ 156.25 \$ (85.19)	\$ 156.25 \$ (86.91)	\$ 156.38 \$ (88.82)	\$ 156.58 \$ (90.60)	\$ 156.92 \$ (92.89)	\$ 157.40 \$ (95.11)	\$ 158.03 \$ (97.92)	\$ 158.81 \$ (101.16)	\$ 159.78 \$ (104.91)	\$ 2,207.62 \$ (292.08)
License System - Low Control Difference from Baseline	\$ 252.38 \$ 12.36	\$ 288.88 \$ 47.22	\$ 294.62 \$ 51.45	\$ 300.98 \$ 55.80	\$ 307.45 \$ 60.27	\$ 314.47 \$ 64.88	\$ 322.09 \$ 69.58	\$ 330.39 \$ 74.44	\$ 339.42 \$ 79.44	\$ 349.27 \$ 84.59	\$ 3,099.72 \$ 600.02
License System - Medium Control Difference from Baseline	\$ 244.45 \$ 4.43	\$ 280.65 \$ 39.21	\$ 288.53 \$ 43.37	\$ 292.80 \$ 47.63	\$ 299.19 \$ 52.01	\$ 306.11 \$ 56.50	\$ 313.62 \$ 61.11	\$ 321.80 \$ 65.86	\$ 330.71 \$ 70.73	\$ 340.43 \$ 75.74	\$ 3,016.29 \$ 516.59
License System - High Control Difference from Baseline	\$ 233.83 \$ (6.39)	\$ 269.80 \$ 28.36	\$ 275.64 \$ 32.48	\$ 281.87 \$ 36.70	\$ 288.20 \$ 41.02	\$ 295.07 \$ 45.46	\$ 302.53 \$ 50.02	\$ 310.84 \$ 54.70	\$ 319.48 \$ 59.50	\$ 329.12 \$ 64.44	\$ 2,905.99 \$ 406.28
License - High Control, No Price Change Difference from Baseline	\$ 216.88 \$ (23.14)	\$ 253.07 \$ 11.83	\$ 258.93 \$ 15.76	\$ 265.17 \$ 20.00	\$ 271.52 \$ 24.34	\$ 276.39 \$ 28.79	\$ 285.85 \$ 33.34	\$ 283.96 \$ 38.02	\$ 302.79 \$ 42.82	\$ 312.43 \$ 47.74	\$ 2,739.00 \$ 239.30
Franchise System - Low Markup Difference from Baseline	\$ 350.42 \$ 110.39	\$ 186.87 \$ (54.57)	\$ 191.38 \$ (51.80)	\$ 196.14 \$ (49.03)	\$ 200.91 \$ (46.27)	\$ 206.08 \$ (43.53)	\$ 211.71 \$ (40.80)	\$ 217.83 \$ (38.11)	\$ 224.51 \$ (35.47)	\$ 231.81 \$ (32.88)	\$ 2,217.84 \$ (282.07)
Franchise System - Medium Markup (685) Difference from Baseline	\$ 398.88 \$ 158.88	\$ 238.11 \$ (5.33)	\$ 241.44 \$ (1.73)	\$ 247.11 \$ 1.94	\$ 252.84 \$ 5.66	\$ 259.05 \$ 9.45	\$ 265.80 \$ 13.29	\$ 273.14 \$ 17.19	\$ 281.13 \$ 21.16	\$ 289.88 \$ 25.17	\$ 2,745.38 \$ 245.66
Franchise System - Medium Markup (1500) Difference from Baseline	\$ 397.39 \$ 157.37	\$ 234.59 \$ (6.85)	\$ 239.88 \$ (3.29)	\$ 245.51 \$ 0.34	\$ 251.21 \$ 4.03	\$ 257.39 \$ 7.78	\$ 264.10 \$ 11.59	\$ 271.40 \$ 15.45	\$ 279.35 \$ 19.37	\$ 288.04 \$ 23.35	\$ 2,728.84 \$ 229.14
Franchise System - High Markup Difference from Baseline	\$ 436.32 \$ 196.30	\$ 274.12 \$ 32.68	\$ 280.05 \$ 36.89	\$ 286.38 \$ 41.21	\$ 292.83 \$ 45.65	\$ 299.81 \$ 50.20	\$ 307.38 \$ 54.87	\$ 315.62 \$ 59.68	\$ 324.59 \$ 64.62	\$ 334.38 \$ 69.70	\$ 3,151.49 \$ 651.78
Franchise System - No Price Change Difference from Baseline	\$ 412.65 \$ 172.63	\$ 250.38 \$ 8.94	\$ 256.24 \$ 13.07	\$ 262.48 \$ 17.30	\$ 268.82 \$ 21.64	\$ 275.69 \$ 26.08	\$ 283.14 \$ 30.63	\$ 291.25 \$ 35.30	\$ 300.07 \$ 40.10	\$ 309.70 \$ 45.02	\$ 2,910.42 \$ 410.72



# Exhibit 1 (cont'd)

## Comparisons of Revenues to State Government (\$ millions) - Privatization Cases vs. Baseline

Scenario	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	10 Year Total
Baseline	\$ 240.02	\$ 241.44	\$ 243.16	\$ 245.17	\$ 247.16	\$ 249.61	\$ 252.51	\$ 255.94	\$ 259.98	\$ 264.69	\$ 2,499.71
Franchise System - Current Markup	\$ 516.16	\$ 355.43	\$ 382.94	\$ 370.97	\$ 379.24	\$ 388.21	\$ 397.94	\$ 406.51	\$ 420.03	\$ 432.59	\$ 4,032.02
Difference from Baseline	\$ 276.14	\$ 113.99	\$ 119.78	\$ 125.80	\$ 132.06	\$ 138.60	\$ 145.43	\$ 152.57	\$ 160.05	\$ 167.90	\$ 1,532.32
Franchise System - Royalty (26.6)	\$ 475.11	\$ 280.57	\$ 288.64	\$ 273.11	\$ 279.70	\$ 286.63	\$ 294.56	\$ 302.99	\$ 312.14	\$ 322.13	\$ 3,073.79
Difference from Baseline	\$ 235.09	\$ 19.13	\$ 23.47	\$ 27.94	\$ 32.52	\$ 37.23	\$ 42.06	\$ 47.04	\$ 52.17	\$ 57.44	\$ 574.09
Franchise System - Royalty (40.0)	\$ 552.29	\$ 280.57	\$ 288.64	\$ 273.11	\$ 279.70	\$ 286.63	\$ 294.56	\$ 302.99	\$ 312.14	\$ 322.13	\$ 3,150.97
Difference from Baseline	\$ 312.27	\$ 19.13	\$ 23.47	\$ 27.94	\$ 32.52	\$ 37.23	\$ 42.06	\$ 47.04	\$ 52.17	\$ 57.44	\$ 651.27
Agency Store System - Low Commission	\$ 308.97	\$ 344.30	\$ 349.26	\$ 354.59	\$ 359.99	\$ 365.90	\$ 372.35	\$ 378.41	\$ 387.15	\$ 395.62	\$ 3,617.54
Difference from Baseline	\$ 68.95	\$ 102.86	\$ 106.10	\$ 109.41	\$ 112.81	\$ 116.29	\$ 119.84	\$ 123.47	\$ 127.17	\$ 130.94	\$ 1,117.84
Agency Store System - Medium Commission	\$ 276.11	\$ 310.93	\$ 315.35	\$ 320.09	\$ 324.86	\$ 330.11	\$ 335.84	\$ 342.13	\$ 349.02	\$ 356.56	\$ 3,261.05
Difference from Baseline	\$ 36.09	\$ 69.49	\$ 72.19	\$ 74.92	\$ 77.70	\$ 80.50	\$ 83.33	\$ 86.18	\$ 89.04	\$ 91.90	\$ 761.34
Agency Store System - High Commission	\$ 198.14	\$ 231.80	\$ 234.97	\$ 236.38	\$ 241.73	\$ 245.43	\$ 248.52	\$ 254.03	\$ 259.01	\$ 264.52	\$ 2,417.53
Difference from Baseline	\$ (41.88)	\$ (9.64)	\$ (8.19)	\$ (6.79)	\$ (5.45)	\$ (4.18)	\$ (2.99)	\$ (1.92)	\$ (0.96)	\$ (0.17)	\$ (82.17)
Wine Only, License System - Low Control	\$ 204.04	\$ 212.43	\$ 214.33	\$ 216.52	\$ 216.72	\$ 221.35	\$ 224.46	\$ 228.11	\$ 232.37	\$ 237.32	\$ 2,209.63
Difference from Baseline	\$ (35.98)	\$ (29.01)	\$ (28.83)	\$ (28.65)	\$ (28.46)	\$ (28.26)	\$ (28.06)	\$ (27.84)	\$ (27.61)	\$ (27.37)	\$ (290.07)
Wine Only, License System - High Control	\$ 206.19	\$ 216.56	\$ 216.47	\$ 220.68	\$ 222.64	\$ 225.44	\$ 228.53	\$ 232.14	\$ 236.36	\$ 241.26	\$ 2,250.47
Difference from Baseline	\$ (31.83)	\$ (24.86)	\$ (24.69)	\$ (24.52)	\$ (24.34)	\$ (24.16)	\$ (23.99)	\$ (23.80)	\$ (23.62)	\$ (23.43)	\$ (249.23)
Wine Only, Franchise System - Low Markup	\$ 254.42	\$ 179.19	\$ 179.53	\$ 160.05	\$ 160.44	\$ 161.13	\$ 162.14	\$ 163.52	\$ 165.31	\$ 167.56	\$ 1,893.29
Difference from Baseline	\$ 14.39	\$ (62.25)	\$ (63.63)	\$ (65.13)	\$ (66.74)	\$ (68.48)	\$ (70.37)	\$ (72.43)	\$ (74.67)	\$ (77.11)	\$ (606.41)
Wine Only, Franchise System - High Markup	\$ 291.69	\$ 216.16	\$ 220.15	\$ 222.40	\$ 224.66	\$ 227.35	\$ 230.52	\$ 234.24	\$ 236.56	\$ 243.56	\$ 2,351.52
Difference from Baseline	\$ 51.67	\$ (23.26)	\$ (23.02)	\$ (22.77)	\$ (22.52)	\$ (22.26)	\$ (21.99)	\$ (21.71)	\$ (21.42)	\$ (21.12)	\$ (148.19)
Wine Only, Agency Store System	\$ 245.65	\$ 254.16	\$ 255.94	\$ 257.94	\$ 259.90	\$ 262.23	\$ 264.97	\$ 268.16	\$ 271.91	\$ 276.23	\$ 2,617.35
Difference from Baseline	\$ 5.83	\$ 12.74	\$ 12.77	\$ 12.77	\$ 12.72	\$ 12.62	\$ 12.46	\$ 12.24	\$ 11.93	\$ 11.55	\$ 117.64





## 2.0 Current Industry and Financial Structure in Pennsylvania

The purpose of this section of the report is to discuss the current structure of the PLCB and its financial relationship to the Commonwealth. Specifically, we will address the drivers behind net cash flows generated by the PLCB through the sale of wine and spirits, transfers from the PLCB to the Commonwealth, and other sources of revenues to the Commonwealth, including excise taxes, sales taxes and local government revenues.

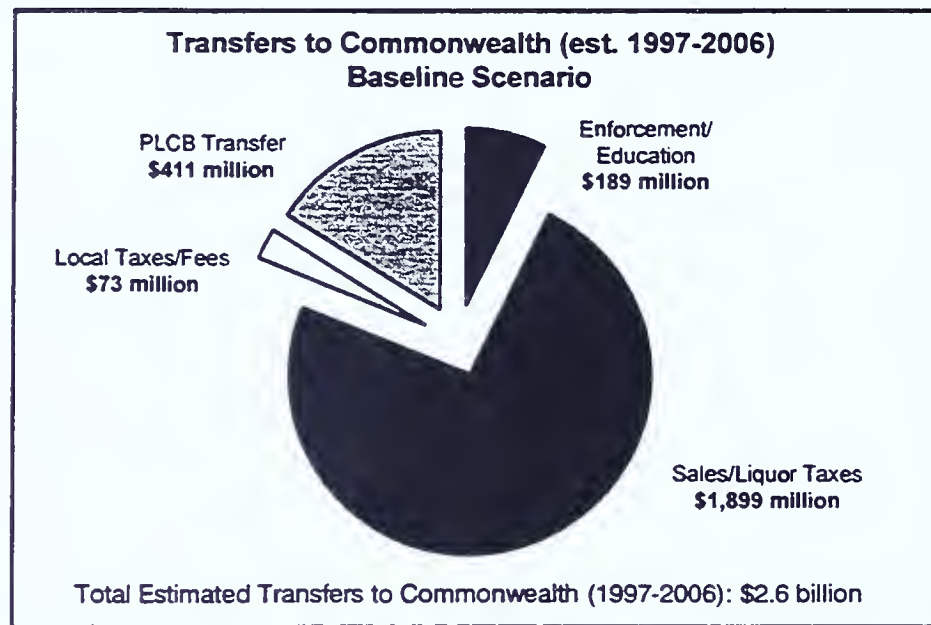
To analyze the impact of each of these different sources of revenues under both a "status quo" (i.e., no privatization) and various privatization alternatives, we developed a financial model that projects both the PLCB's net cash flows and transfers to the Commonwealth. In this section of the report, we discuss the model's projections under the "status quo" or "Baseline" case. The potential impact of privatization of the PLCB on these cash flows to the Commonwealth are discussed in the following section of the report. Complete details of the model are contained in Appendix I.

### 2.1 Financial Impact of Industry

The revenues from the distribution and sale of wine and spirits in Pennsylvania provide a significant cash inflow to the Commonwealth. In 1996, the revenues related to the wine and spirits industry received by the Commonwealth were \$235.58 million. The Commonwealth currently obtains these revenues in various forms:

- *PLCB Cash Flows:* The PLCB directly collects revenues from the sale of wine and spirits in the Commonwealth through its operation of the retail sales network. The PLCB also incurs costs in managing and operating both the wholesale and retail systems. The net cash flows from the PLCB's operations are transferred to the Commonwealth.
- *Transfers to the Commonwealth Government:* The Commonwealth government receives annual transfers from the PLCB (see above), as well as tax income from state excise taxes on alcohol and state sales taxes. The Commonwealth also benefits from the PLCB's expenditures on enforcement and drug and alcohol programs.
- *Transfers to Local Government:* Local governments receive revenues in the form of local sales taxes (Philadelphia and Allegheny Counties only) and municipal license fees.

The following exhibit illustrates the relative magnitude of each of these components of cash flows to the Commonwealth over the next decade (assuming continued PLCB operations). The largest component of Commonwealth transfers is tax revenues from the state excise tax on wine and spirits and state sales tax.

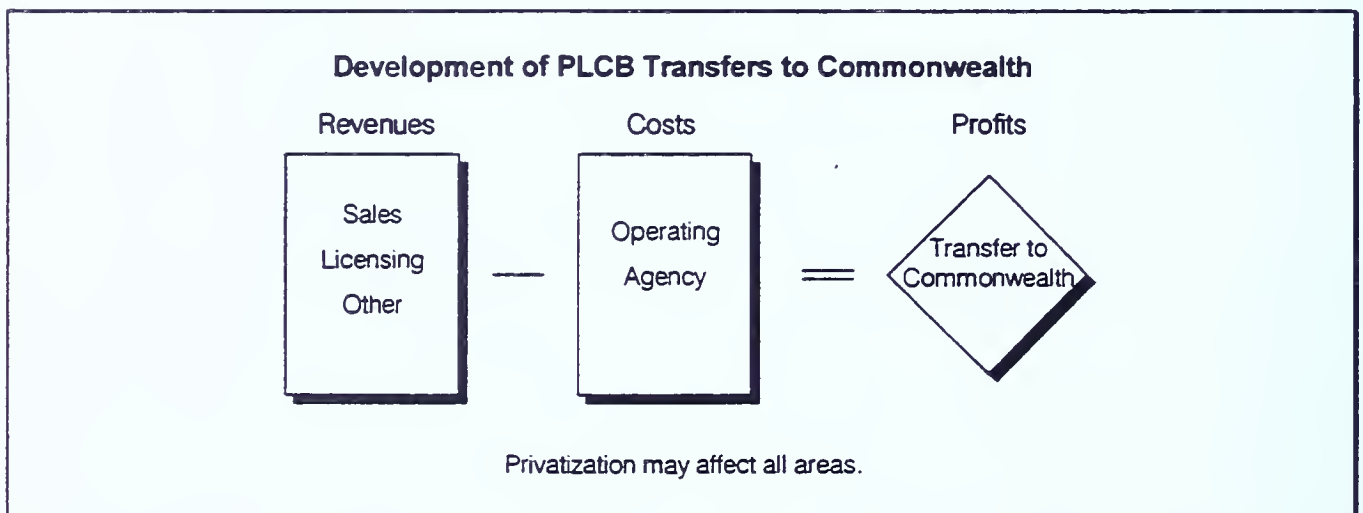


#### *PLCB Cash Flows*

The PLCB currently generates revenues in two areas. The majority is through its 665 stores and three warehouses which account for 100 percent of off-premise sales of wine and spirits in the Commonwealth. In addition, revenues are obtained from associated services including the issuance of beer, wine and spirits license fees and the collection of enforcement fines. Currently, the PLCB is responsible for licensing all bars and restaurants that sell alcohol on an on-premise basis, as well as all beer distributors that sell on an off-premise basis.

The PLCB costs can be divided into two areas. The first set of costs are the operating costs that are associated with providing wholesale and retail sales of wine and spirits. Line items in this area include personnel salaries and benefits, lease space, store equipment, and inventory. Other costs are those for providing administrative support to the operations and licensing functions, and include areas such as financial/payroll services, comptroller services, information services and payments for warehousing.

The funds remaining after expenses are subtracted from revenues are transferred to the Commonwealth. This process is depicted graphically in the following exhibit.





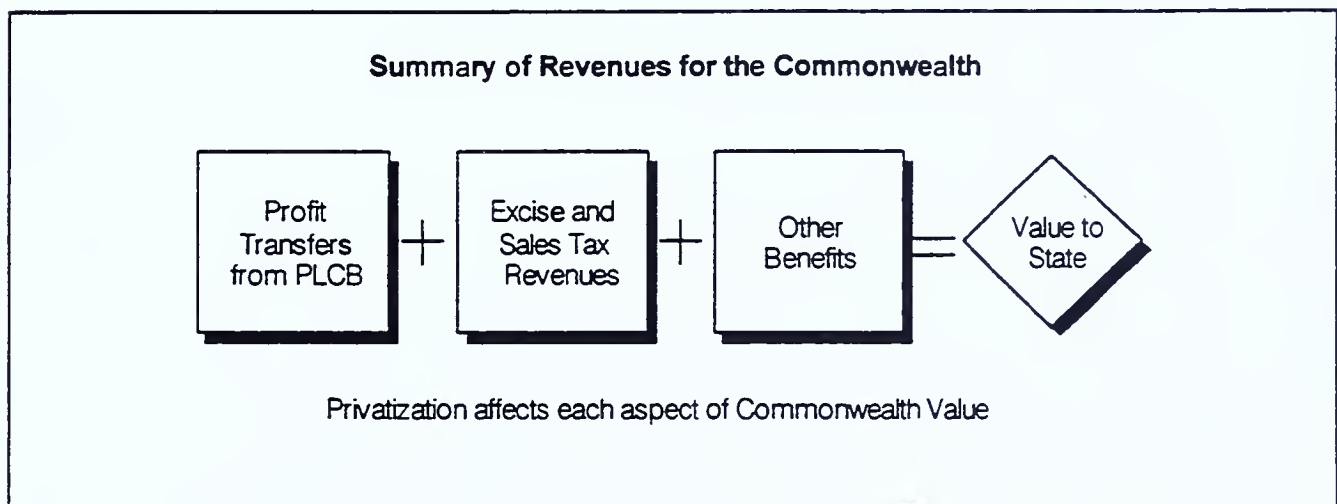
*Revenues for the Commonwealth Government*

As noted briefly above, benefits received by the Commonwealth government from the PLCB include (among others) the following:

- net transfers from the PLCB (discussed above);
- tax revenues from the sale of wine and spirits within the state;
- drug and alcohol education programs;
- enforcement activities.

The first two items comprise the majority of the transfers to the Commonwealth. In addition to the transfers from the PLCB, the Commonwealth currently receives an 18 percent excise tax and a sales tax of 6 percent on all wine and spirits sales.

The relationships between these transfers to the state are shown in the following exhibit.



*Revenues for Local Governments*

Local governments also receive revenues from the wine and spirits industry in the form of municipal license fees. As mentioned above, the PLCB charges license fees to distributors, bars and other entities handling beer, wine and spirits in Pennsylvania and a portion of these fees is remitted to the communities in which the licensed establishment is located. Allegheny and Philadelphia Counties also charge and receive a local sales tax on the sale of wine and spirits of 1 percent.

## 2.2. Baseline Scenario

To understand the financial impact to the Commonwealth of these different sources of revenues and costs, we developed a Baseline scenario to forecast the expected revenue streams associated with the PLCB management of wine and spirits distribution and sales. This scenario allows us to estimate the overall value of the wine and spirits industry to the Commonwealth assuming no changes to the current operating and regulatory structure. It also serves as a benchmark against which all privatization cases can be compared. Prices, taxes, agency expenses, operating expenses, sales volume, and number of retail outlets are all calculated with the assumption that the wine and spirits distribution system that currently exists will remain in place indefinitely.

The financial model we developed to analyze the Baseline scenario (as well as all of the privatization scenarios) is described in detail in Appendix I. As an overview, however, the Baseline forecast is divided into five major parts, corresponding to the five modules in the model:

- *PLCB Operating Revenues:* These revenues are comprised of wine and spirits sales at state stores (i.e., retail sales) and to licensees (i.e., license sales). They also include the effects of pass-through discounts, "bottle picks" (surcharges for purchases of split cases), and special orders.
- *PLCB Agency Revenues:* Distinct from its operating revenues, the PLCB as an agency also brings in revenues from license fees, enforcement fines, interest income, and other miscellaneous revenue.
- *PLCB Operating Expenses:* These costs represent the expenses associated with the PLCB's retail operations, including costs of goods sold, salaries and benefits, and other store expenses.
- *PLCB Agency Expenses:* The PLCB incurs overhead and administrative expenses, including the costs associated with the wholesale warehouse operations contract.
- *Transfers to the Commonwealth:* Described in greater detail above, these transfers include taxes, enforcement costs, and drug and alcohol program expenditures.

The Baseline scenario we developed assumes that the PLCB will continue to control and manage the sale of wine and spirits as at present. The following are the main characteristics which govern this Baseline/status quo scenario:

- **PLCB Wholesale Markup:** 30% for wine and spirits
- **Excise Tax:** 18%
- **Retail Markup:** OCCs for wine and spirits<sup>1</sup>

These characteristics determine both the price paid by the consumer at the store and the amount of revenue the Commonwealth receives. The price to the consumer consists of a series of markups and taxes applied to the manufacturer's price or cost of goods sold (COGS<sup>2</sup>). The following table describes the current pricing process from the COGS to the final price an individual consumer would pay for a sample half gallon (64 oz) bottle of wine.

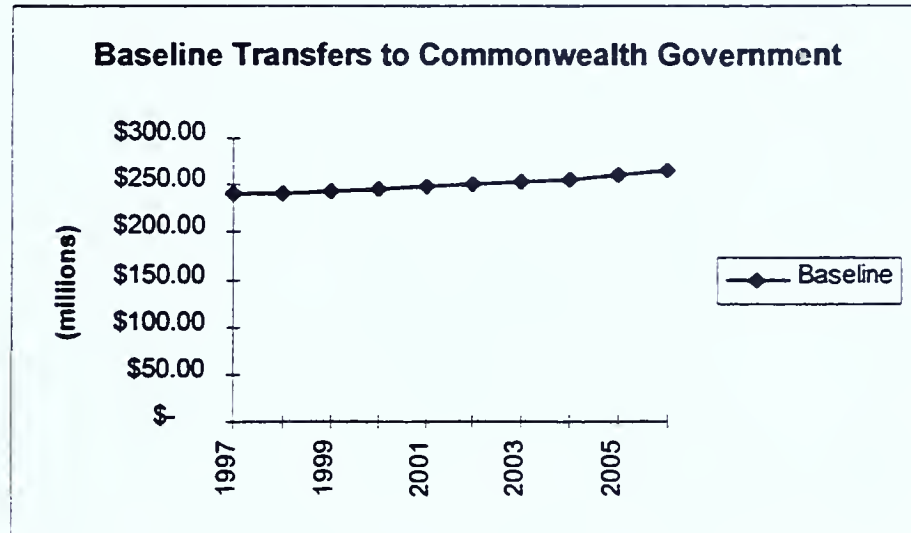
Current Pricing (example)						
COGS ½ gall wine	Apply wholesale markup of 30%	Add flat rate OCC	Apply excise tax of 18%	Apply sales tax of 6%	Apply local sales tax of 1%	FINAL PRICE TO CONSUMER
\$4.60→	+\$1.38→	+\$1.35→	+\$1.32→	+\$0.52→	+\$0.09→	\$9.25

The PLCB currently has in place a series of rounding practices that may affect the final price to the consumer. These rounding effects were not considered in this example.

<sup>1</sup> Operational cost component (OCC) is a flat markup by bottle size currently applied by the PLCB in addition to the 30 percent markup.

<sup>2</sup> Cost of goods sold (COGS) is the amount paid to the manufacturer to purchase inventory.

We developed a Baseline forecast of the future expected revenue streams to the Commonwealth for a 10-year period (from 1997 through 2006)<sup>3</sup>, which total approximately \$2.5 billion. These streams are depicted in the following exhibit.



As can be readily seen from the graph, net transfers to the Commonwealth are predicted to remain fairly constant over the next decade.<sup>4</sup> The primary reason for this is that wine sales are expected to increase at a relatively low rate over the ten-year period (0.55 percent per year growth in the Baseline case), while spirits sales are expected to decrease over the same period (- 2.05 percent per year decrease in the Baseline case). These two trends, which mirror national trends in alcohol consumption, combine to keep PLCB transfers relatively steady over the next decade in our model.

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<sup>3</sup> The last year of available historic financial data was 1996. Therefore, the model's ten year forecasts begin with 1997. It is false to assume that if the industry in Pennsylvania were actually privatized today that the forecasted numbers for 1997 would be completely accurate. We used 1997 as a base year to avoid distorting the numbers by trying to forecast actual 1997 results and then using those forecasts as a historical input for further analysis.

<sup>4</sup> Baseline transfers increase at a rate significantly below the rate of inflation when inflation is assumed to equal approximately 3 percent per year.









### 3.0 Privatization Scenarios

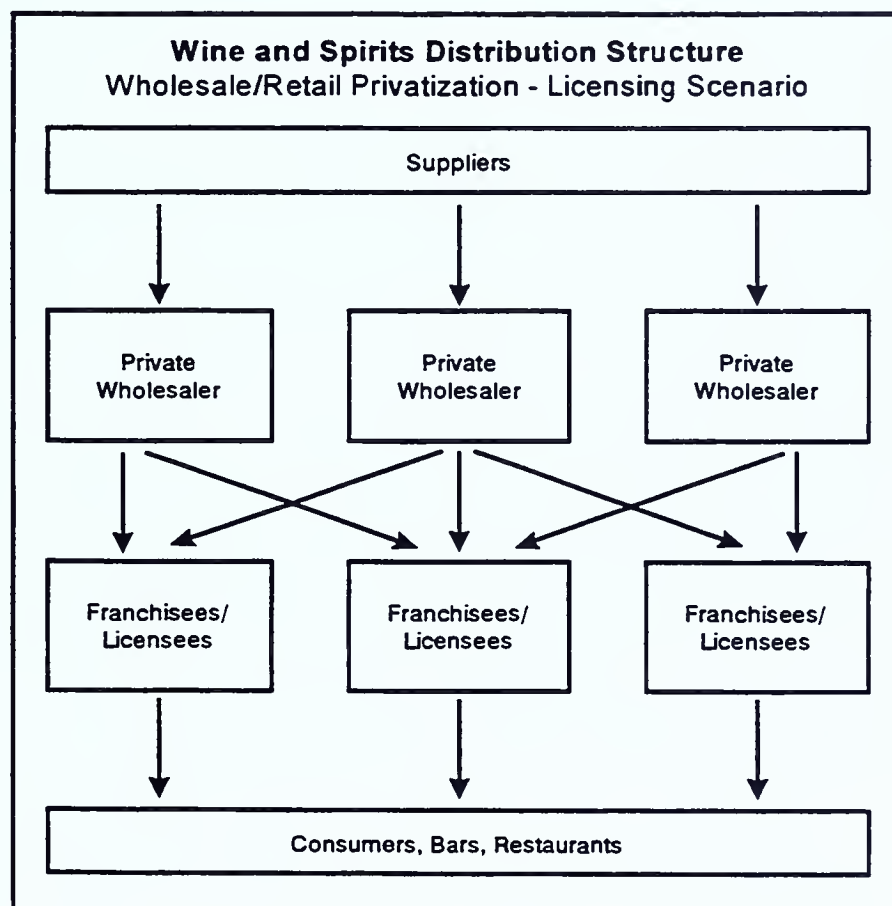
#### 3.1 Methodology and Approach

This section focuses on the impact of privatization on the Commonwealth and PLCB for each of the privatization scenarios under consideration. Each scenario reflects a different set of operating assumptions in the areas of wholesale and retail markups, taxes, franchise and license fees, store and PLCB expenses, and transition costs. The assumptions developed were based on information obtained from comparable states, industry research, and PLCB staff. As in the Baseline scenario, the financial model we developed was used to produce 10-year forecasts which estimate the revenues and costs accruing to PLCB operations, the Commonwealth and local governments. The detailed financial forecasts may be found in Appendix II.

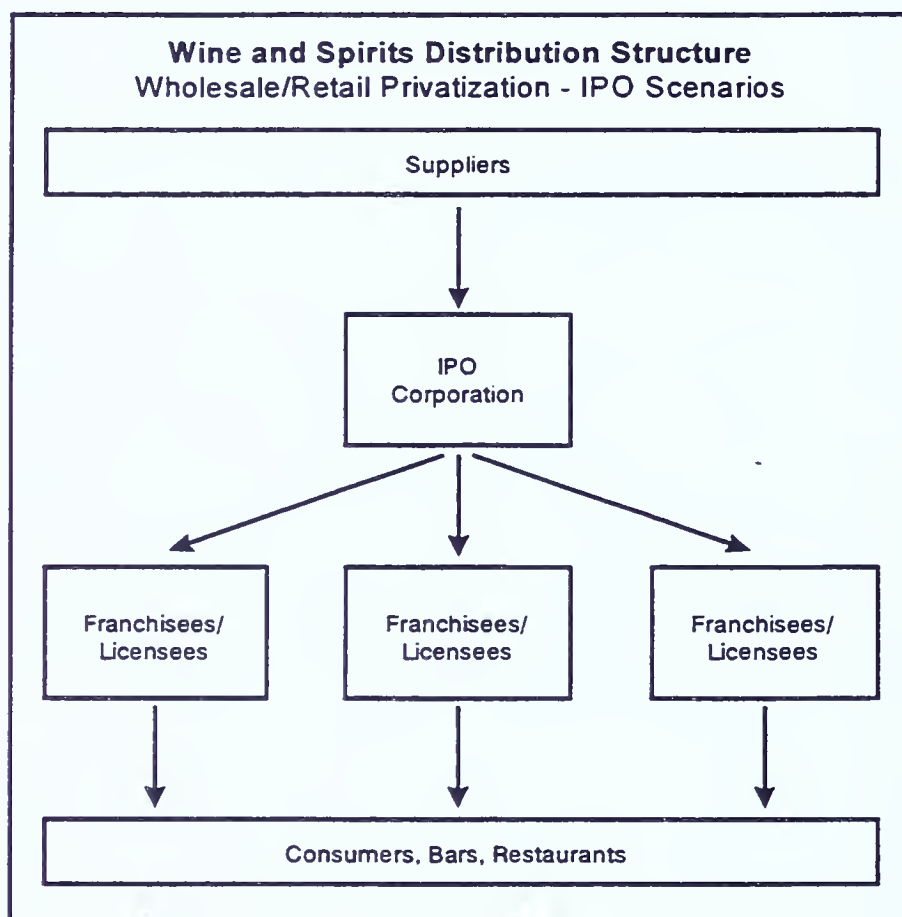
As noted previously, the privatization scenarios we have analyzed in this report can be divided into two major groups:

- *Wholesale/Retail Privatization Scenarios* where the PLCB exits both the wholesale and retail sides of the business, but remains primarily as an enforcement entity;
- *Retail Privatization Scenarios* where the PLCB maintains control over wholesale and enforcement operations, but gives up retail operations to the private sector.

Under the wholesale/retail scenarios, we can further divide the options we examined into two major categories. The first envisions multiple wholesalers and retailers in the market, and is depicted in the following graph:



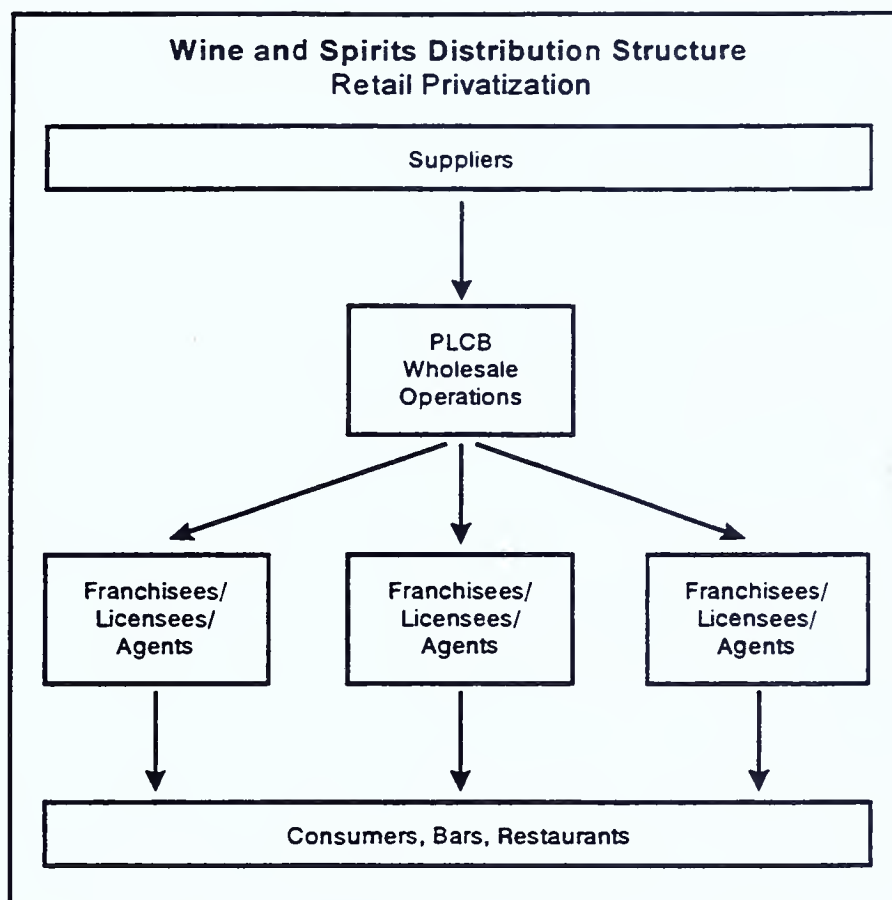
In this general scenario, the Commonwealth would grant an unlimited amount of wholesale and retail licenses in the state. The total number of licenses would be limited only by market conditions. No matter how many wholesale/retail licensees enter the market, however, all license fees would flow to the PLCB/Commonwealth. This situation can be contrasted to the second general type of wholesale/retail scenario, which envisions granting an exclusive franchise/license to a wholesaler in the state, but having multiple retailers. This general scenario is depicted in the following graph:



This general scenario contemplates the Commonwealth granting exclusive wholesale rights to an "IPO corporation", which in turn licenses/franchises retail rights to a number of private sector retailers. The Commonwealth would obtain up-front payments through the initial public offering (IPO) roughly equal to the value of the exclusive rights to sell wine and spirits in the state, but any franchise/license revenues would go to the IPO corporation instead of the Commonwealth. Because all prices would be set by a single IPO corporation at the wholesale level and its franchisees/licensees at the retail level, the Commonwealth would most likely need to regulate the IPO corporation's prices to provide a safeguard against price gouging.

The retail privatization scenarios contemplate a very different industry structure, as can be seen in the following graph:





In these scenarios, the PLCB maintains control over wholesale operations. This situation has two important implications. First, the PLCB is free to set wholesale price markups, which allows it to indirectly influence final consumer prices in the market. Second, it is able to maintain cash flows from wholesale operations (although possibly at different levels). On the retail side, the PLCB would allow the private sector to enter the market through one of three options:

- *Franchise Scenarios* where the PLCB/Commonwealth would obtain significant up-front revenues from the auctioning of franchise rights;
- *License Scenarios* where the Commonwealth would obtain a more steady stream of license fees from retailers;
- *Agency Scenarios* where the PLCB pays retailers a fee based on a percentage of sales to act as their "selling agents".

In the franchise and license scenarios, the PLCB gives up control over retail prices, but maintains control over wholesale prices. In the agency scenarios, the PLCB maintains control over both sets of prices.

Each of the privatization scenarios we have developed for this report fall under one of these general categories. Complete details for each individual scenario are presented below and in Appendix I.

### 3.2 Effects of Major Industry Characteristics

For each privatization scenario, we considered the impact of the following critical operating characteristics on the structure of wine and spirits distribution and sales in Pennsylvania:

- *Effects of Markups and Taxes on Revenues:* The Commonwealth is able to control the ongoing revenues it receives through the wholesale markup (except in the wholesale/retail privatization cases) and the excise tax. In the case of retail privatization, we assumed that the excise tax would remain unchanged at 18 percent and considered a variety of different wholesale markup levels (see Appendix I for discussion of how wholesale and retail markups were selected). Lower wholesale markups lead to lower prices and increased unit sales, but less overall revenues to the Commonwealth in the form of PLCB revenues and taxes. Even with the increase in sales, excise taxes decrease because they are assessed against a lower base price. Conversely, higher wholesale markups lead to increased revenues to the Commonwealth. In the wholesale/retail privatization scenarios, the Commonwealth no longer collects wholesale markups and receives only tax revenues. Therefore, in these cases, the selected tax rate is the main determinant of the revenues received by the Commonwealth. Clearly, in all privatization scenarios (and the Baseline case) the Commonwealth exercises no control over the increase or decrease in sales and sales revenue that occur independent of price changes.
- *Effects of Markups and Taxes on Prices:* Under retail privatization, the Commonwealth will continue to exercise some level of control over the price the public will pay through the wholesale markup and the excise tax. In all cases except agency store systems, the private sector will control the markup at the retail level. Nonetheless, in the retail privatization cases, the wholesale markup and the excise tax combined determine the cost of goods for the retailer and, therefore, greatly impact how much the retailer will charge at the counter. For example, if the Commonwealth charges a high wholesale markup, the retailer will be forced to charge high prices just to cover his/her cost of goods. On the other hand, if the Commonwealth charges a low markup, the retailer can keep the price relatively low and still be able to make a profit. In the wholesale/retail privatization scenarios, the Commonwealth only determines the excise tax which enters into the cost of goods to the wholesaler and retailer. High excise tax rates in the wholesale/retail cases will cause final retail prices to be relatively high as both the wholesaler and the retailer will be applying their own markups on top of the tax.
- *Effects of Regulatory Control:* The Commonwealth will also exercise some level of control over prices through the regulatory structure. Limitations as to how the retailer can operate have a large impact on the cost structure of the retailer and, therefore, how much of a markup the retailer will need to charge. For example, if the Commonwealth limits the type of products that may be sold in a private retail outlet, the retailer will be forced to charge high prices just to cover his/her cost of running the store. On the other hand, if the Commonwealth allows supermarkets to be wine and spirits outlets, the retailer may have a lower cost structure and be able to charge less at the counter. In the case of an IPO, the corporation would become a monopolist within the Commonwealth which could allow them to charge much higher prices at the retail level since they do not have to adjust for competition.
- *Effects of Number of Outlets:* The number of outlets are also an element of control for the Commonwealth. In all privatization cases, the Commonwealth may decide how many retail outlets or licensees to allow. This will have an impact on both the prices charged and the revenues received. A higher number of outlets will lead to greater competition and a probable drop in prices. In addition, an increase in the number of outlets may offer more revenues to the Commonwealth in the form of increased license fees.

Each of these areas is highlighted in the analysis of results for each scenario that follows.

### 3.3 Wholesale and Retail Privatization Scenarios

For the wholesale/retail privatization cases, we assumed that the PLCB would exit both the wholesale and retail sides of the business. The PLCB would continue to exist, however, performing such duties as monitoring, licensing, running alcohol awareness programs, etc. In analyzing the options for wholesale/retail privatization, we considered two general approaches. The first approach looks at licensing wholesale and retail operations to multiple vendors who would compete with each other in the market place. The second approach analyzes the effects of selling the wholesale business to a group of investors through an initial public offering (IPO) and having the resulting corporation issue licenses or franchises for retail sales.

#### *Wholesale and Retail Licensing*

In this case, we assumed that the PLCB would sell both wholesale and retail licenses (limited only by market conditions), thereby generating annual licensing revenues for the PLCB. Both wholesale and final retail prices would be determined by supply and demand conditions. The Commonwealth would set the excise tax rate and continue to receive tax revenues, although we assumed that the current excise tax would be changed to a volume-based gallonage tax.<sup>1</sup> The gallonage tax rates of \$3.25/gallon for wine and \$6.75/gallon for spirits were chosen to approximate the excise taxes received in the Baseline case. These gallonage taxes would be the highest currently charged in the country (see Appendix I for discussion of gallonage tax rates) and would substantially increase the cost of goods for the wholesaler. The Commonwealth would continue to assess state and local sales taxes. The wholesale and retail markups assumed are based upon industry averages and experience in related states and then were adjusted downward to reflect the higher base price upon which the wholesaler and retailer would be applying their markups in this case. The major assumptions are as follows:

- |                                       |   |
|---------------------------------------|---|
| • Wholesale License Fees:             | \$7,000 per license per annum           |
| • Retail License Fees:                | \$5,000 per license per annum           |
| • Franchise Auction Proceeds:         | none                                    |
| • Private Wholesale Markup:           | 27% for wine; 24% for spirits           |
| • Gallonage Tax:                      | \$3.25/g for wine; \$6.75/g for spirits |
| • Retail Markup:                      | 22% for wine; 20% for spirits           |
| • Total Retail Licenses Available:    | unlimited                               |
| • Total Wholesale Licenses Available: | unlimited                               |

The following chart describes the pricing process from the COGS to the final price an individual consumer would pay for a sample half gallon (64 oz) bottle of wine in this scenario.

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<sup>1</sup> Every license state in the US uses a gallonage based tax rather than a value based excise tax. A gallonage tax is easier to administer in cases such as these where neither the Commonwealth or the PLCB ever takes possession of the inventory. For a more extensive discussion of the issue and our assumptions, please see Appendix I.



**Pricing (example): Wholesale/Retail Licensing**

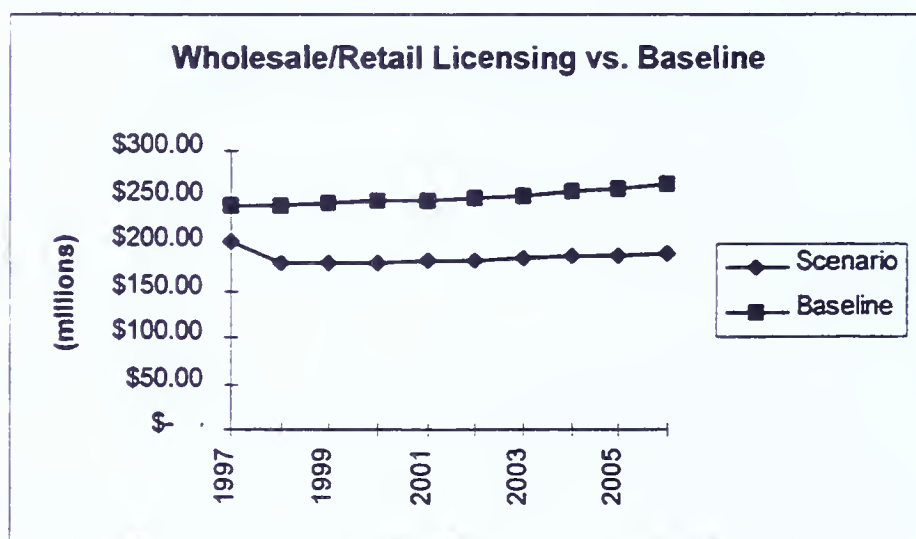
COGS <sup>2</sup> 1/2 gall wine	Add gallonage tax of \$3.25/g	Apply wholesale markup of 27%	Apply retail markup of 22%	Apply sales tax of 6%	Apply local sales tax of 1%	FINAL PRICE TO CONSUMER
\$4.60→	+\$1.63→	+\$1.68→	+\$1.74→	+\$0.58→	+\$0.10→	\$10.32

Given these assumptions, the results are as follows:

- Ten Year Cash Flows - Difference from Baseline      \$ (642.80) million
- First Year Cash Flows - Difference from Baseline      \$ (36.65) million
- Initial Average Price Changes                              4.19% for wine; 9.09% for spirits
- Total Retail Outlets    3,255
- Total Wholesale Licensees:                                      60

Although an unlimited number of retail licenses and wholesale licenses would be made available in this scenario, we estimate that there will be interest in the market for approximately 3,255 retail licenses and 60 wholesale licenses. Our assessment of the number of retail licenses is based on an average rate of outlets per population in states with similar retail licensing structures. The retail license fees are based on the average fee instituted in Iowa subsequent to their recent retail privatization efforts. The expected number of wholesalers and wholesale license fees are based on the experience in neighboring New York and New Jersey, which both have wholesale and retail licensing systems (see Appendix I for discussion of retail and wholesale outlets and license fees).

The following chart provides a comparison of cash flows to the Commonwealth of this scenario to the Baseline.



The overall financial value to the Commonwealth is substantially lower than the Baseline in this scenario for several reasons. First, the PLCB generates much lower revenues to cover their ongoing agency

<sup>2</sup> Cost of goods sold (COGS) is the amount paid to the manufacturer to purchase inventory.

expenses than in the Baseline case, thereby transferring less cash flows to the Commonwealth. The PLCB no longer benefits from the actual sale of wine or spirits. Instead, the sole source of revenues to the PLCB comes from licenses while the PLCB continues to bear the cost burden of licensing, enforcement and education. In the first year, the PLCB also incurs one time transition expenses to cover sick and annual leave payout, unemployment expenses, and the general costs of shutting down stores which amount in total to approximately \$31 million.<sup>3</sup>

In this case, the Commonwealth also loses approximately \$20 million per year in tax revenues. This situation arises because of the substitution of a gallonage tax for an 18 percent value-based tax. The gallonage tax is a flat tax which does not increase with inflation or as markups applied by the wholesaler or retailer change. If the Commonwealth were to increase tax rates to force tax revenues up, prices under this scenario rise dramatically because the cost of goods sold to wholesalers and retailers becomes very high.

#### *Initial Public Offering (IPO) with Retail Licensing*

In both of the IPO scenarios, we assumed that the Commonwealth would convert the entire wholesale/retail system to a state-owned corporation, and then sell off ownership for this corporation through an initial public offering (IPO) of stock. In these scenarios, we considered only the financial implications of an IPO approach and did not take into account the antitrust and other legal issues we believe are likely to be raised by the sale of monopoly control of wine and spirits in the Commonwealth to a single, private entity.

This sale generates initial cash flows to the Commonwealth equal to the value of the exclusivity rights to investors. Specifically, the price that investors are willing to pay for the system is inversely related to the level of competition they will face in the industry. In the IPO scenarios considered here, the IPO corporation is assumed to be the only wholesaler in the Commonwealth.

Under the IPO License scenario, the IPO corporation would grant licenses to independent retailers to distribute wine and spirits, appropriating the resulting license fees (in contrast to the retail-only privatization cases discussed below, where these fees would accrue to the PLCB/Commonwealth). The key to this scenario is the actual expected value of proceeds from the IPO. We used the following assumptions to estimate that value and the value of the scenario to the Commonwealth.<sup>4</sup> The assumptions used for wholesale and retail markups and gallonage tax rates are unchanged from the Wholesale and Retail Licensing scenario.

• Retail License Fees:	\$5,000 per license per annum
• Franchise Auction Proceeds:	none
• Private Wholesale Markup:	27% for wine; 24% for spirits
• Gallonage Tax:	\$3.25/g for wine; \$6.75/g for spirits
• Retail Markup:	22% for wine; 20% for spirits
• Total Retail Licenses Available:	unlimited
• Pennsylvania Corporate Tax Rate:	9.99%
• Federal Tax Rate:	35%
• IPO Discount Rate:	12% <sup>5</sup>

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<sup>3</sup> These expenses are incurred in all privatization scenarios and are detailed in Appendix I.

<sup>4</sup> The PLCB in both IPO cases no longer has any significant relevance. It still exists to handle on-premise licensing, alcohol education and enforcement, but it no longer has any real revenue stream and essentially becomes a Commonwealth expense.

<sup>5</sup> The discount rate is used to determine the net present value of the IPO, which is the current value of all future expected cash flows from the operations of the IPO. The rate selected is based on discount rates used for similar government and privatization projects and was reviewed by the Commonwealth's Office of the Budget.

## Privatization Analysis of the Pennsylvania Wine and Spirits Industry

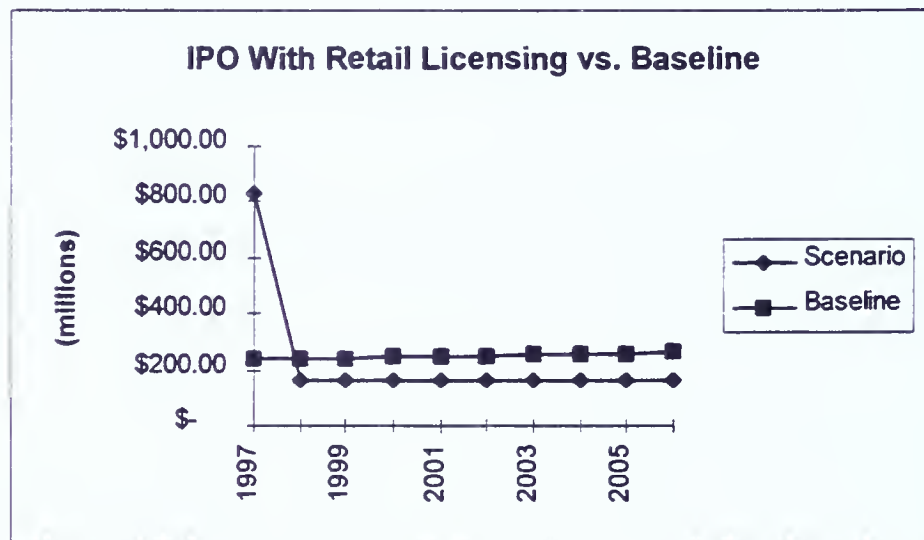
The following chart describes the pricing process from the COGS to the final price an individual consumer would pay for a sample half gallon (64 oz) bottle of wine in this scenario.

Pricing (example): IPO with Retail Licensing						
COGS 1/2 gall wine	Add gallonage tax of \$3.25/g	Apply wholesale markup of 27%	Apply retail markup of 22%	Apply sales tax of 6%	Apply local sales tax of 1%	FINAL PRICE TO CONSUMER
\$4.60→	+\$1.63→	+\$1.68→	+\$1.74→	+\$0.58→	+\$0.10→	\$10.32

Based on these assumptions, we obtained the following results:

- Market Value of IPO \$ 649 million
- Ten Year Cash Flows - Difference from Baseline \$ (223.71) million
- First Year Cash Flows - Difference from Baseline \$ 592.50 million
- Initial Average Price Changes 4.19% for wine; 9.09% for spirits
- Total Retail Outlets 3,255

The following chart provides a comparison of cash flows to the Commonwealth of this scenario to the Baseline.



In this case the \$649 million from the IPO is transferred directly to the Commonwealth in Year 1. The Commonwealth also benefits from the approximately \$14.5 million in annual corporate income taxes paid by the IPO corporation. However, annual cash flows in years two through ten and the total of cash flows to the Commonwealth decreases slightly in comparison to the Baseline due to the decrease in tax revenues as discussed above. In addition, the Commonwealth incurs \$2 million a year in additional regulatory costs of administering the gallonage tax and monitoring the IPO corporation.

### *Initial Public Offering (IPO) with Retail Franchising*

Under the franchise system, the IPO corporation would auction off franchises to retailers, generating auction proceeds for the sale of rights to operate retail outlets for a specified time period. In contrast to

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the retail franchise privatization cases discussed below, the IPO corporation, not the Commonwealth, would be the recipient of these franchise auction fees. The assumptions and implications of this case do not differ substantially from the IPO Licensing scenario, with the exception of retail markups which are higher to allow franchisees to offset their up-front investment:

• Retail License Fees:	None
• Franchise Auction Proceeds:	28.8% of previous year's sales
• Private Wholesale Markup:	27% for wine; 24% for spirits
• Gallonage Tax:	\$3.25/g for wine; \$6.75/g for spirits
• Retail Markup:	25% for wine; 22% for spirits
• Total Retail Franchises Available:	665
• Pennsylvania Corporate Tax Rate:	9.99%
• Federal Tax Rate:	35%
• IPO Discount Rate:	12%

The following chart describes the pricing process from the COGS to the final price an individual consumer would pay for a sample half gallon (64 oz) bottle of wine in this scenario.

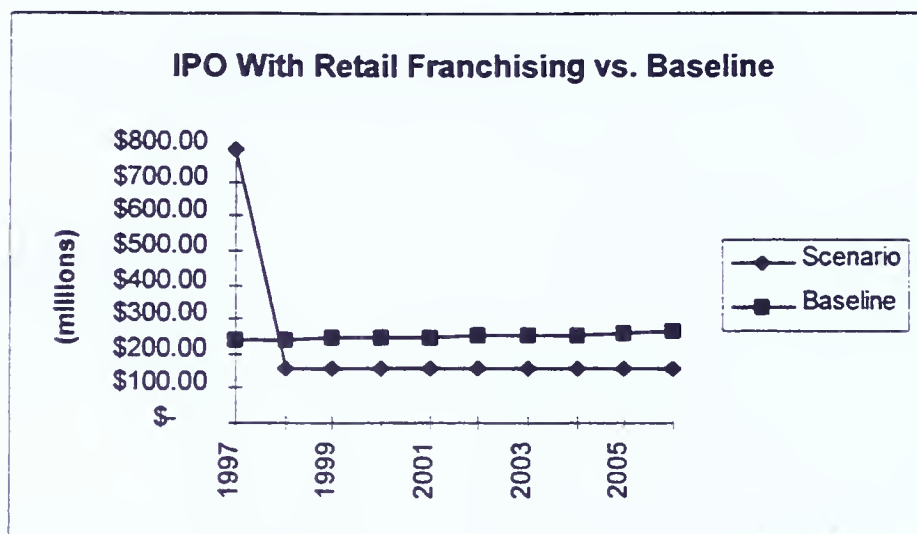
Pricing (example): IPO with Retail Franchising						
COGS 1/2 gall wine	Add gallonage tax of \$3.25/g	Apply wholesale markup of 27%	Apply retail markup of 25%	Apply sales tax of 6%	Apply local sales tax of 1%	FINAL PRICE TO CONSUMER
\$4.60→	+\$1.63→	+\$1.68→	+\$1.98→	+\$0.59→	+\$0.10→	\$10.57

Based on these assumptions, we obtained the following results:

• Market Value of IPO	\$ 606 million
• Ten Year Cash Flows - Difference from Baseline	\$ (292.08) million
• First Year Cash Flows - Difference from Baseline	\$ 551.23 million
• Initial Average Price Changes	6.75% for wine; 10.90% for spirits
• Total Retail Outlets	665

The following chart provides a comparison of cash flows to the Commonwealth of this scenario to the Baseline.





The slight differences in results between this scenario and the IPO with Licensing scenario stem mainly from the price increases in the Franchise scenario. Prices increase because the retail markups need to be higher to allow franchisers the opportunity to earn a return on their franchise investment. This results in a decrease in unit sales and a resulting decrease in the tax revenues earned. However, most other characteristics associated with the License IPO scenario also hold true for this scenario.

It is important to note that while both of the IPO cases do produce some decline in 10-Year Total revenues in comparison to the Baseline, the major difference between the IPO scenarios and the Baseline scenario is largely in the timing of the cash flows to the Commonwealth (i.e., high up-front cash from the IPO and lower future cash flows versus ongoing constant cash flows in the Baseline).



### **3.4 Retail Privatization Scenarios (Wine and Spirits)**

Under the retail privatization scenarios, we examined three general types of privatization approaches: retail license systems, retail franchise systems and retail agency systems. Each approach assumes that the PLCB maintains its current wholesale operations and exits the retail market completely by closing its "state stores". These options ensure that the Commonwealth retains control over markups on wholesale transactions and allow the Commonwealth to exercise varying degrees of control over the retail environment. Retail privatization (wine and spirits) scenarios generally offer the Commonwealth reduced operating expenses and the opportunity to obtain increased cash flows through license, franchise auction and royalty fees.

#### **3.4a Retail Licenses**

Under these scenarios, the PLCB will grant licenses to retailers, who will then be free to set their own markups/prices. Within the retail license structure, we considered a range of scenarios in which the Commonwealth exercises varying degrees of control on the retail environment.

##### *License System - Low Control*

Under the Low Control scenario, the PLCB would grant a (potentially) unlimited number of licenses, although the actual number will be determined by market conditions. This system is similar to the one used to privatize Iowa's retail network in 1987. The Low Control scenario demonstrates the characteristics and financial ramifications of an industry structure in which the Commonwealth has little or no control over the number or type of licenses, products sold at retail outlets, or prices charged. Possible licensees include grocery stores, current Pennsylvania beer distributors, and other existing or new retail establishments. As retailers are not constrained by stringent requirements, we estimate that the average retail markup will be 22%, which is relatively low by industry standards. Details on how we arrived at these markups are in Appendix I.

As in the Wholesale/Retail Licenses scenario above, we assumed licenses would be granted for 3,255 retail outlets based on the percentage per population in similar surrounding states. The cost of each license would also be based on the average fee instituted in the Iowa privatization. The following are our assumptions for this scenario:

- Retail License Fees: \$5,000 per license per annum
- PLCB Wholesale Markup: 27% for wine and spirits
- Excise Tax: 18%
- Retail Markup: 22% for wine and spirits
- Total Retail Licenses Available: unlimited

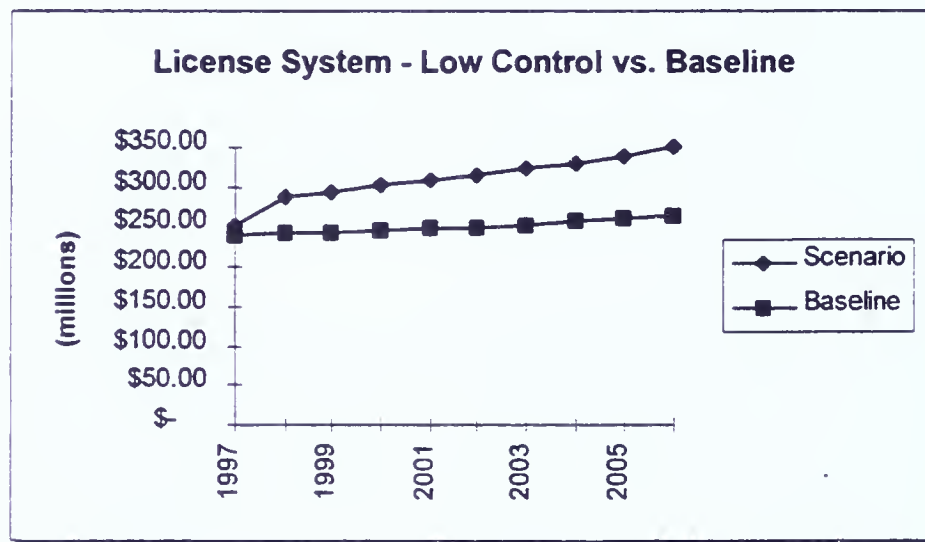
The following chart describes the pricing process from the COGS to the final price an individual consumer would pay for a sample half gallon (64 oz) bottle of wine in this scenario.

<b>Pricing (example): License System - Low Control</b>						
<b>COGS</b> ½ gall wine	<b>Apply wholesale</b> <b>markup of 27%</b>	<b>Apply excise</b> <b>tax of 18%</b>	<b>Apply retail</b> <b>markup of 22%</b>	<b>Apply sales</b> <b>tax of 6%</b>	<b>Apply local</b> <b>sales tax of 1%</b>	<b>FINAL PRICE</b> <b>TO CONSUMER</b>
<b>\$4.60→</b>	<b>+\$1.24→</b>	<b>+\$1.05→</b>	<b>+\$1.52→</b>	<b>+\$0.50→</b>	<b>+\$0.08→</b>	<b>\$9.00</b>

With these assumptions, the results are as follows:

- Ten Year Cash Flows - Difference from Baseline      \$ 600.02 million
- First Year Cash Flows - Difference from Baseline      \$ 12.36 million
- Initial Average Price Changes                              -2.89% for wine; 6.87% for spirits
- Total Retail Outlets    3,255

The following chart provides a comparison of cash flows to the Commonwealth of this scenario to the Baseline.



In this scenario, the cash flows to the Commonwealth increase significantly from the Baseline as a result of maintaining a wholesale markup roughly comparable to the current markup, but eliminating all of the costs associated with operating the retail network. The only exception to this result is in Year 1 when the Commonwealth incurs \$30 million in transition costs. In addition, license fees increase, although this is largely offset by the increase in enforcement to cover the new outlets.

Excise tax revenues decline compared to the Baseline because of the new way in which prices are calculated. The 18 percent tax comes on top of a decreased wholesale markup (down to 27 percent from 30 percent) and no OCC. In addition, although wine sales grow due to a decrease in wine prices, higher spirits prices cause a decrease in spirits sales which more than offset the gain in wine sales (see Appendix I for a complete discussion of these elasticity effects). Overall, however, the reduction in operating expenses for the PLCB more than compensates for the loss in sales revenues and excise taxes.

#### *License System - Medium Control*

The Medium Control scenario assumes a situation in which the PLCB exerts a moderate level of control over the retail licensees by establishing parameters on who may obtain licenses and the percentage of sales from non-wine and/or spirits products. As a result, we estimate that retailers will need to increase their markup from 22% to 25% to adjust for their reduced flexibility in distributing costs across product lines and other economies of scale. We also assume that there will be less of a market for licensees under the more restrictive scenario, resulting in fewer retail outlets. The number of retail licensees expected is based on an average of the Low Control 3,255 outlets and the High Control 1,200 outlets assumed (see next scenario). The assumptions under this scenario are otherwise similar to the Low Control scenario:

## Privatization Analysis of the Pennsylvania Wine and Spirits Industry

- Retail License Fees: \$5,000 per license per annum
- PLCB Wholesale Markup: 27% for wine and spirits
- Excise Tax: 18%
- Retail Markup: 25% for wine and spirits
- Total Retail Licenses Available: unlimited

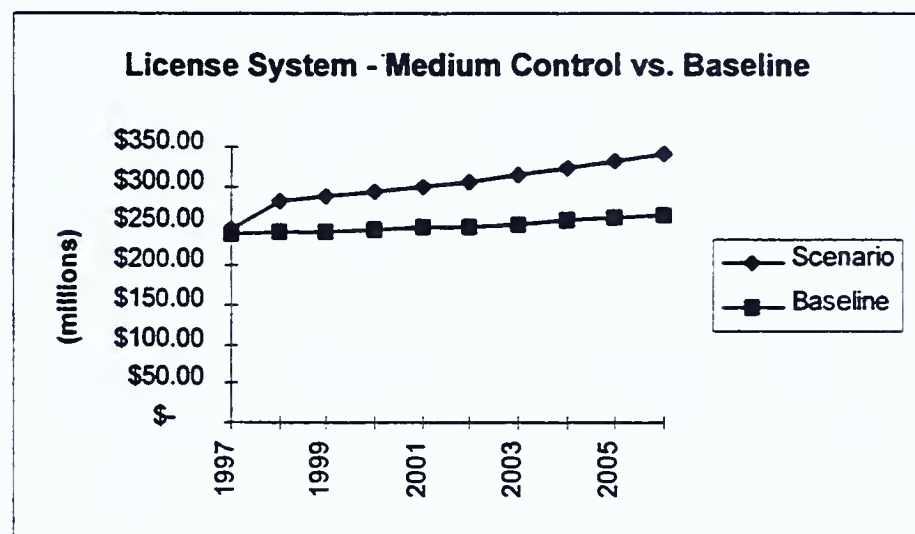
The following chart describes the pricing process from the COGS to the final price an individual consumer would pay for a sample half gallon (64 oz) bottle of wine in this scenario.

Pricing (example): License System - Medium Control						
COGS ½ gall wine	Apply wholesale markup of 27%	Apply excise tax of 18%	Apply retail markup of 25%	Apply sales tax of 6%	Apply local sales tax of 1%	FINAL PRICE TO CONSUMER
\$4.60→	+\$1.24→	+\$1.05→	+\$1.72→	+\$0.52→	+\$0.09→	\$9.22

With these assumptions, the results are as follows:

- Ten Year Cash Flows - Difference from Baseline \$ 516.59 million
- First Year Cash Flows - Difference from Baseline \$ 4.43 million
- Initial Average Price Changes -0.50% for wine; 9.50% for spirits
- Total Retail Outlets 2,200

The following chart provides a comparison of cash flows to the Commonwealth of this scenario to the Baseline.



The primary drivers causing the slight decrease in cash flow to the Commonwealth compared to the Low Control results are a decreased wholesale markup and slightly dampened sales. The issues are in large part related. Retail markups are increasing to allow retailers a larger margin under which to operate since they are restricted in being able to capitalize on sales of other products or additions to existing retail space. Nonetheless, the cash flows to the Commonwealth in this scenario are significantly higher



than in the Baseline case due to the virtual elimination of retail operating costs, as in the Low Control scenario.

#### *License System - High Control*

In comparison to the two previous cases, under the High Control scenarios, the PLCB would only grant licenses to establishments which derived 90 percent or more of their revenues from the sale of wine and/or spirits. This approach limits the ability of grocery stores and other similar establishments to enter the market and changes the market parameters. This system is similar to the one used to privatize the retail system in Alberta, Canada in 1993. We assume that the limitations of this new market will cause retailers to increase their markups to even higher levels than the Medium Control case. As in the Medium Control scenario, the increase in restrictions results in a reduced number of licensees, due to the limit in retail options. We assumed that the number of retailers applying for licenses under a "High Control" environment would approximate the current number of retail beer distributors (1,100) in Pennsylvania plus some allowance for new market entrants (see Appendix I for detailed discussion). Other scenario assumptions are as follows:

- Retail License Fees: \$5,000 per license per annum
- PLCB Wholesale Markup: 27% for wine; 25% for spirits
- Excise Tax: 18%
- Retail Markup: 28% for wine; 27% for spirits
- Total Retail Licenses Available: unlimited

The following chart describes the pricing process from the COGS to the final price an individual consumer would pay for a sample half gallon (64 oz) bottle of wine in this scenario.

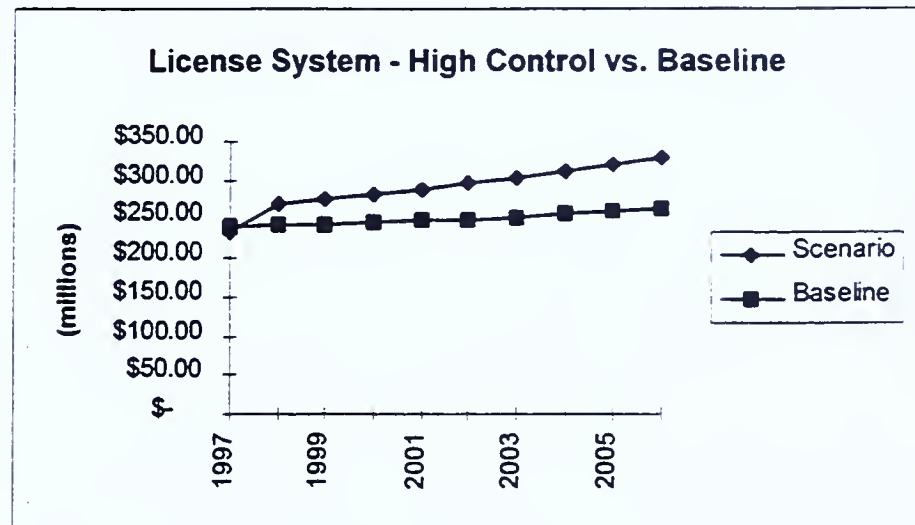
<b>Pricing (example): License System - High Control</b>						
COGS ½ gall wine	Apply wholesale markup of 27%	Apply excise tax of 18%	Apply retail markup of 28%	Apply sales tax of 6%	Apply local sales tax of 1%	FINAL PRICE TO CONSUMER
\$4.60→	+\$1.24→	+\$1.05→	+\$1.93→	+\$0.53→	+\$0.09→	<b>\$9.44</b>

With these assumptions, the results are:

- Ten Year Cash Flows - Difference from Baseline \$ 406.28 million
- First Year Cash Flows - Difference from Baseline \$ (6.39) million
- Initial Average Price Changes 1.89% for wine; 9.50% for spirits
- Total Retail Outlets 1,200

The following chart provides a comparison of cash flows to the Commonwealth of this scenario to the Baseline.





As in the Medium Control scenario, the primary drivers causing the decrease in cash flow to the Commonwealth compared to the Low Control scenario are a further decreased wholesale markup and reduced sales. Furthermore, in this case, in order to keep prices from increasing drastically, the PLCB is forced to lower wholesale markups slightly to offset greater elasticity effects. However, even with lowering markups in spirits by 2 percent at the wholesale level, prices are still increasing thus lowering demand somewhat. License fee revenues also decrease due to the fewer absolute number of outlets.

#### *License System - Price Neutral*

This scenario differs from the previous scenario (High Control) in that it forces wholesale markups down in order to maintain prices at approximately the Baseline level and keeps the number of outlets at 665. The assumptions used for this scenario are:

- Retail License Fees: \$5,000 per license per annum
- PLCB Wholesale Markup: 25% for wine; 18% for spirits
- Excise Tax: 18%
- Retail Markup: 27% for wine; 23% for spirits
- Total Retail Licenses Available: 665

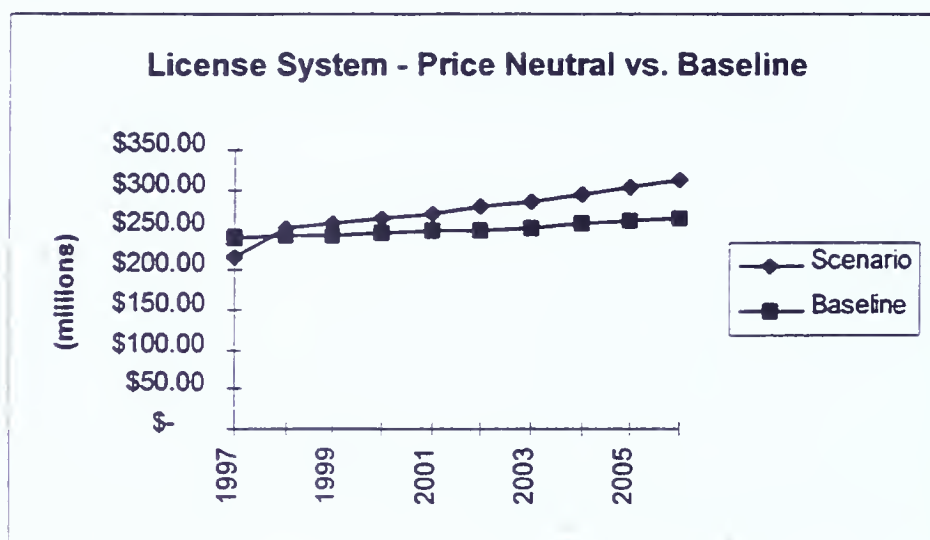
The following chart describes the pricing process from the COGS to the final price an individual consumer would pay for a sample half gallon (64 oz) bottle of wine in this scenario.

Pricing (example): License System - Price Neutral						
COGS ½ gall wine	Apply wholesale markup of 25%	Apply excise tax of 18%	Apply retail markup of 27%	Apply sales tax of 6%	Apply local sales tax of 1%	FINAL PRICE TO CONSUMER
\$4.60→	+\$1.15→	+\$1.04→	+\$1.83→	+\$0.52→	+\$0.09→	\$9.22

With these assumptions, the results are:

- Ten Year Cash Flows - Difference from Baseline \$ 239.30 million
- First Year Cash Flows - Difference from Baseline \$ (23.14) million
- Initial Average Price Changes approximately zero for both wine and spirits
- Total Retail Outlets 665

The following chart provides a comparison of cash flows to the Commonwealth of this scenario to the Baseline.



The financial impact of keeping prices essentially status quo is significant. Although total cash flows to the State over the 10 year period are better in this scenario than in the Baseline, in 1997, the Commonwealth is predicted to lose money compared to the Baseline primarily as a result of the \$30 million in transition costs associated with all privatization scenarios. In all future years, this scenario provides increased transfers when compared to the Baseline, but is still lower than all other license cases due to the lower wholesale markups charged and taxes that are being assessed against a lower price base.

### **3.4b Retail Franchises**

Under these scenarios, the PLCB will auction franchise rights to wine and/or spirits retailers, thereby generating "up-front" revenues. We assume that each purchaser would obtain the rights to operate their franchise for a 10-year period (1997-2006) with a set number of franchises available across the Commonwealth (if the franchise period or number of franchises is changed, the value and timing of the auction proceeds would change as well). In addition to generating up-front auction proceeds, each franchise would be subject to an annual fee. This fee may be in the form of a flat license fee or a royalty fee, which is based on percentage of sales (for more discussion of franchise and license fees, see Appendix I). As in the license system cases described above, these franchises would be free to set their own retail markups/prices.

#### *Franchise System - Low Markup*

In the Low Markup case, we assumed that the PLCB would charge a relatively low wholesale markup, corresponding to the markup charged in West Virginia when it privatized its retail system through a franchise auction in 1991. As in West Virginia, the low markup is expected to produce a significant drop in prices. We assumed that 665 franchises would be made available, the approximate current number of retail "state store" outlets. The license fees estimated here are also based on the rates implemented in West Virginia. Other assumptions for this scenario are also based primarily on the experiences of West Virginia:

- Retail License Fees: \$1,000 per license per annum
- Franchise Auction Proceeds: 28.8% of the previous year's pre-tax sales  
\$198.45 million
- PLCB Wholesale Markup: 8% for wine and spirits
- Excise Tax: 18%
- Retail Markup: 25% for wine and spirits
- Total Retail Licenses Available: 665

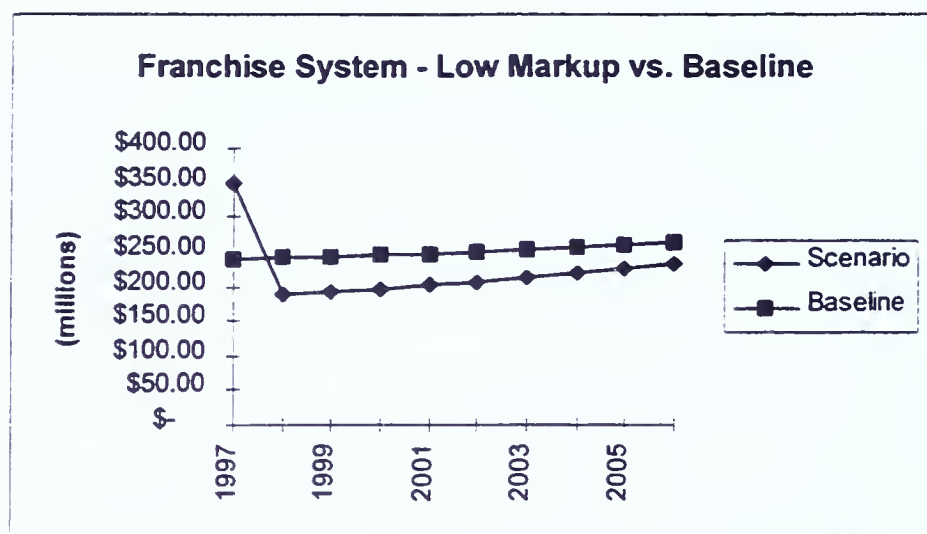
The following chart describes the pricing process from the COGS to the final price an individual consumer would pay for a sample half gallon (64 oz) bottle of wine in this scenario.

<b>Pricing (example): Franchise System - Low Markup</b>						
COGS ½ gall wine	Apply wholesale markup of 8%	Apply excise tax of 18%	Apply retail markup of 25%	Apply sales tax of 6%	Apply local sales tax of 1%	FINAL PRICE TO CONSUMER
<b>\$4.60→</b>	<b>+\$0.37→</b>	<b>+\$0.89→</b>	<b>+\$1.47→</b>	<b>+\$0.44→</b>	<b>+\$0.07→</b>	<b>\$7.84</b>

With these assumptions, the results are as follows:

- Ten Year Cash Flows - Difference from Baseline \$ (282.07) million
- First Year Cash Flows - Difference from Baseline \$ 110.39 million
- Initial Average Price Changes -15.39% for wine; -6.89% for spirits
- Total Retail Outlets 665

The following chart provides a comparison of cash flows to the Commonwealth of this scenario to the Baseline.



Although the Commonwealth gains from the over \$198 million in franchise proceeds that are generated under this scenario, the cash flows to the Commonwealth are negatively impacted by the extremely low wholesale markup. For this reason, we examined the effect of increasing the wholesale markups below.

#### *Franchise System - Medium Markup*

Under the Medium Markup, we considered the effect of increasing the wholesale markup from 8% to 18%. As a result of this increase, we expect that prices will increase as well vis-à-vis the Retail Franchise Low Markup case. We keep all the other assumptions unchanged.

The following chart describes the pricing process from the COGS to the final price an individual consumer would pay for a sample half gallon (64 oz) bottle of wine in this scenario.

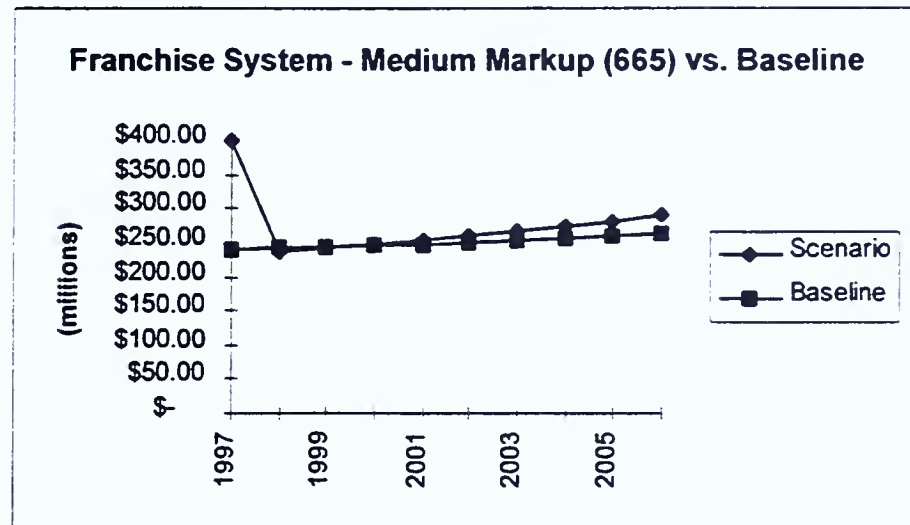
Pricing (example): Franchise System - Medium Markup						
COGS ½ gall wine	Apply wholesale markup of 18%	Apply excise tax of 18%	Apply retail markup of 25%	Apply sales tax of 6%	Apply local sales tax of 1%	FINAL PRICE TO CONSUMER
\$4.60→	+\$0.83→	+\$0.98→	+\$1.60→	+\$0.48→	+\$0.08→	\$8.57

The results for the Medium Markup are as follows:

- Ten Year Cash Flows - Difference from Baseline      \$ 245.66 million
- First Year Cash Flows - Difference from Baseline      \$ 158.86 million
- Initial Average Price Changes                              -7.55% for wine; 1.74% for spirits
- Total Retail Outlets    665

The following chart provides a comparison of cash flows of this scenario to the Baseline.





Due to the increase in the wholesale markup, this scenario provides higher total 10-year cash flows to the Commonwealth. The higher wholesale markup compared to the Low Markup case has the combined effect of increasing the sales revenues to the PLCB, as well as increasing the price base and thereby the amount received in taxes. However, compared to the Baseline, the major difference is the \$198 million received in up-front auction proceeds and the elimination of all operating costs associated with the retail store system.

*Franchise System - Medium Markup (1,500 stores)*

This scenario is the same as the Retail Franchise Medium Markup presented above except that we consider the effect of allowing 1,500 retail franchise stores to enter the market. The increased number of entrants into the market will cause the average value of each franchise to fall; however, the sum of all auction proceeds combined should not change from the Medium Markup 665 stores case since it will remain equal to the value of the total market. All other assumptions remain the same:

- Retail License Fees: \$1,000 per license per annum
- Franchise Auction Proceeds: 28.8% of the previous year's pretax sales  
\$198.45 million
- PLCB Wholesale Markup: 18% for wine and spirits
- Excise Tax: 18%
- Retail Markup: 25% for wine and spirits
- Total Retail Licenses Available: 1,500

The following chart describes the build-up to the final price in this scenario.

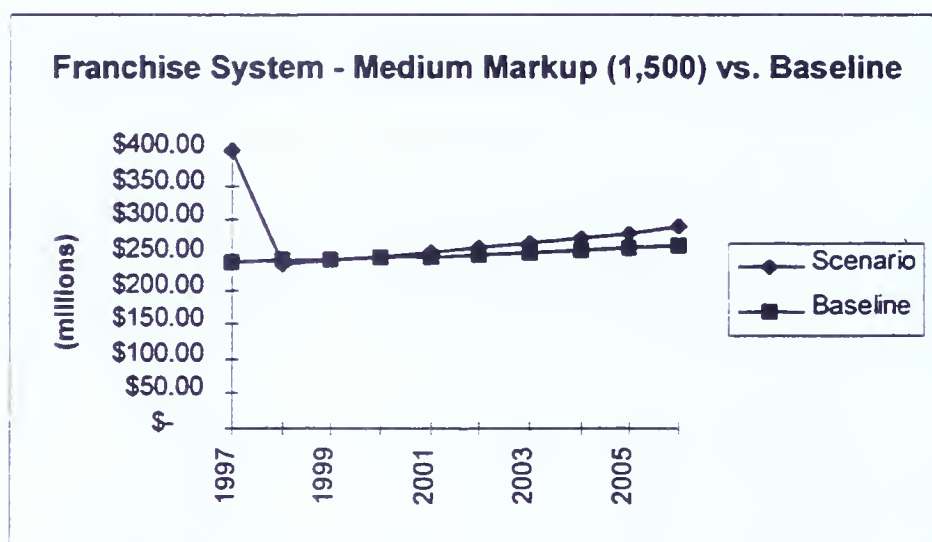
**Pricing (example): Franchise System - Medium Markup (1,500 stores)**

COGS ½ gall wine	Apply wholesale markup of 18%	Apply excise tax of 18%	Apply retail markup of 25%	Apply sales tax of 6%	Apply local sales tax of 1%	FINAL PRICE TO CONSUMER
\$4.60→	+\$0.83→	+\$0.98→	+\$1.60→	+\$0.48→	+\$0.08→	\$8.57

The results are as follows:

- Ten Year Cash Flows - Difference from Baseline \$ 229.14 million
- First Year Cash Flows - Difference from Baseline \$ 157.37 million
- Initial Average Price Changes -7.55% for wine; 1.74% for spirits
- Total Retail Outlets 1,500

The following chart provides a comparison of cash flows to the Commonwealth of this scenario to the Baseline.



The difference between the Medium Markup 665 stores scenario and the Medium Markup 1,500 stores scenario is negligible. Both demonstrate high up-front revenues from the sale of the franchise rights and then lower but steadily growing revenues from Year 2 onward. Essentially, sales do not increase in this scenario, but are simply more dispersed among the new higher number of retailers. Some additional revenues are received from an increase in license fees. As in the Medium Markup 665 stores scenario, the total 10-year revenues to the Commonwealth are slightly higher than in the Baseline, but the difference occurs entirely in Year 1 with the influx of revenues from the auction proceeds.

*Franchise System - High Markup*

To consider the impact of the high end of the markup spectrum, we increased the wholesale markup to 27% and kept all else constant.

The following chart describes the pricing process from the COGS to the final price an individual consumer would pay for a sample half gallon (64 oz) bottle of wine in this scenario.

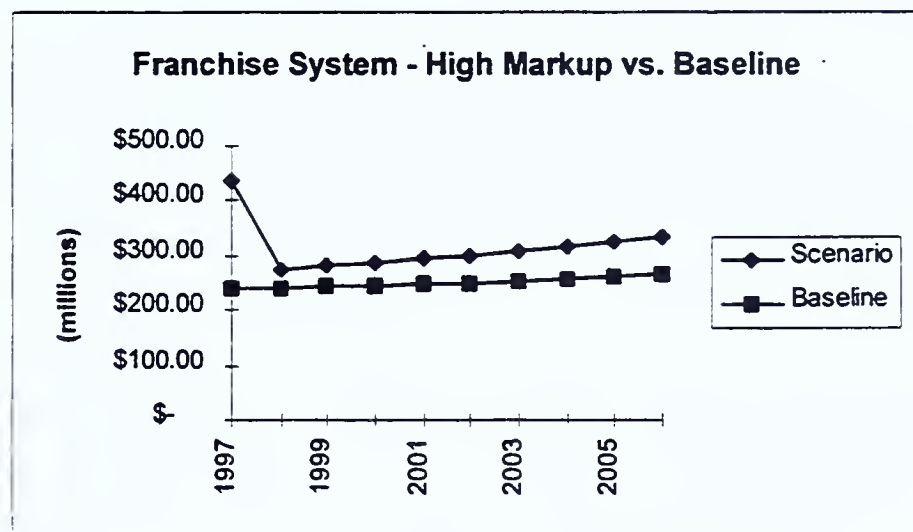
**Pricing (example): Franchise System - High Markup**

COGS ½ gall wine	Apply wholesale markup of 27%	Apply excise tax of 18%	Apply retail markup of 25%	Apply sales tax of 6%	Apply local sales tax of 1%	FINAL PRICE TO CONSUMER
\$4.60→	+\$1.24→	+\$1.05→	+\$1.72→	+\$0.52→	+\$0.09→	\$9.22

The results were as follows:

- Ten Year Cash Flows - Difference from Baseline      \$ 651.78 million
- First Year Cash Flows - Difference from Baseline      \$ 196.3 million
- Initial Average Price Changes                              -0.50% for wine; 9.50% for spirits
- Total Retail Outlets    665

The following chart provides a comparison of cash flows to the Commonwealth of this scenario to the Baseline.



By increasing the markups either to a medium or high level, the franchising approach becomes more comparable to the retail licensing scenarios in terms of total revenues to the Commonwealth over the 10-year period, although the timing of these transfers is very different. The Commonwealth still benefits from the \$198 million in initial proceeds, but does trade off part of the same value in loss of long-term cash flows. In fact, with the wholesale markup on the higher end of the spectrum (27%) and price increases (especially for wine) not higher than in other scenarios, the taxes, sales, and profit transfers are very similar to the licensing scenarios. The difference in revenues then becomes simply the initial up-front value of the franchise auction. As discussed in the executive summary, this difference is critical in considering the overall value of each option.

The three basic franchise scenarios above (Low Markup, Medium Markup (665) and High Markup) demonstrate the results of varying only the wholesale markup within the basic franchise structure. The additional retail franchise scenarios were developed to consider the impact of a broader variety of

assumptions and pricing structures, such as the range of expected auction proceeds, additional fees on retailers, and different price levels.

*Franchise System - Price Neutral*

This scenario is the same as the Retail Franchise - High Markup except we adjusted our markup assumptions to produce final prices that are similar to the Baseline case:

- Retail License Fees: \$1,000 per license per annum
- Franchise Auction Proceeds: 28.8% of the previous year's pretax sales  
\$198.45 million
- PLCB Wholesale Markup: 25% for wine; 18% for spirits
- Excise Tax: 18%
- Retail Markup: 27% for wine; 23% for spirits
- Total Retail Licenses Available: 665

The following chart describes the pricing process from the COGS to the final price an individual consumer would pay for a sample half gallon (64 oz) bottle of wine in this scenario.

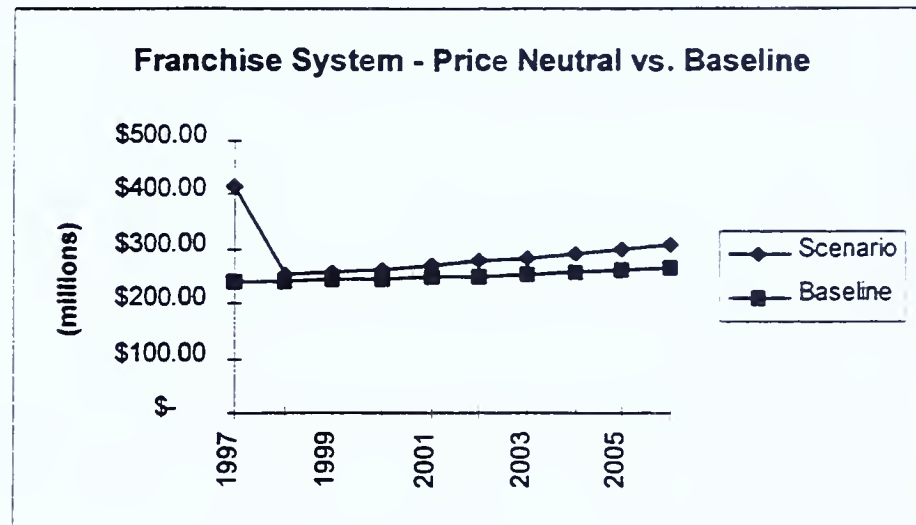
Pricing (example): Franchise System - Price Neutral						
COGS ½ gall wine	Apply wholesale markup of 25%	Apply excise tax of 18%	Apply retail markup of 27%	Apply sales tax of 6%	Apply local sales tax of 1%	FINAL PRICE TO CONSUMER
\$4.60→	+1.15→	+1.04→	+1.83→	+0.52→	+0.09→	\$9.22

The results are as follows:

- Ten Year Cash Flows - Difference from Baseline \$ 410.72 million
- First Year Cash Flows - Difference from Baseline \$ 172.63 million
- Initial Average Price Changes approximately zero for both wine and spirits
- Total Retail Outlets 665

The following chart provides a comparison of cash flows to the Commonwealth of this scenario to the Baseline.





The cash flows to the Commonwealth are lower than in the High Markup case due to the somewhat reduced markups and prices, but still greater than in the Baseline scenario. Again, as in the High Markup scenario, the Commonwealth benefits from the up-front auction proceeds, but then experiences much lower ongoing cash flows in Years 2 through 10. In this scenario as opposed to the High Markup case, the public will most likely not see much difference in the prices charged at the retail level.

#### *Franchise System - Current Markup*

This scenario is the same as the Franchise System - High Markup except we assume that the wholesale markups remain approximately the same as the PLCB markups in the Baseline and that there is an additional markup of 23% for the private retailer, which approximates the average retailer markup. Although the PLCB markups will remain approximately the same, the retail price for the consumer will increase dramatically as the retailer is applying an additional markup on top of the markups at the wholesale level.

- Retail License Fees: \$1,000 per license per annum
- Franchise Auction Proceeds: 28.8% of the previous year's pretax sales  
\$198.45 million
- PLCB Wholesale Markup: 60% for wine; 45% for spirits
- Excise Tax: 18%
- Retail Markup: 23% for wine and spirits
- Total Retail Licenses Available: 665

The following chart describes the pricing process from the COGS to the final price an individual consumer would pay for a sample half gallon (64 oz) bottle of wine in this scenario.

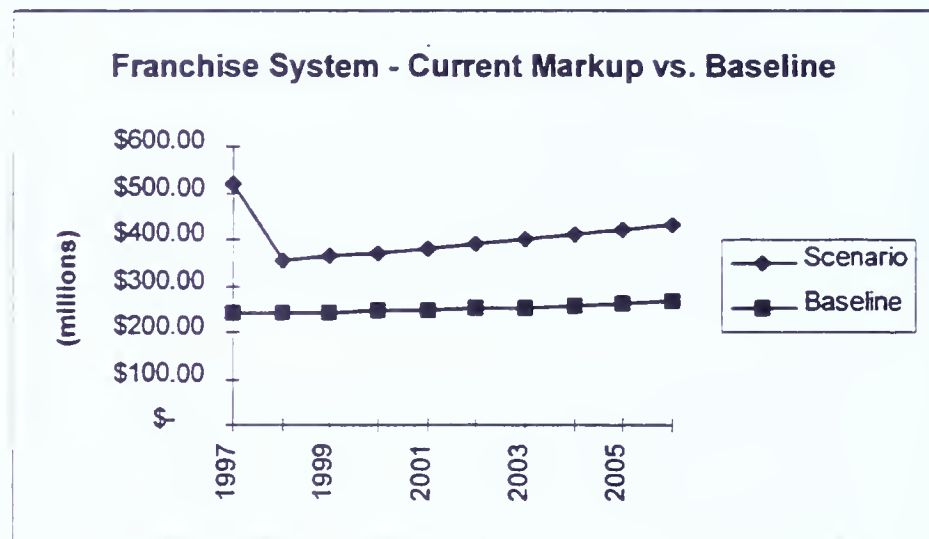
**Pricing (example): Franchise System - Current Markup**

COGS ½ gall wine	Apply wholesale markup of 60%	Apply excise tax of 18%	Apply retail markup of 23%	Apply sales tax of 6%	Apply local tax of 1%	FINAL PRICE TO CONSUMER
\$4.60→	+\$2.76→	+\$1.32→	+\$2.00→	+\$0.64→	+\$0.11→	\$11.43

The results are as follows:

- Ten Year Cash Flows - Difference from Baseline      \$ 1,532.32 million
- First Year Cash Flows - Difference from Baseline      \$ 276.14 million
- Initial Average Price Changes                              23.35% for wine; 23.01% for spirits
- Total Retail Outlets    665

The following chart provides a comparison of cash flows to the Commonwealth of this scenario to the Baseline.



This scenario produces significantly larger cash flows to the Commonwealth compared to the Baseline case in all years. As in the other franchise scenarios, the Commonwealth benefits from the up-front franchise fee value. In addition, the annual cash flows improve over the Baseline due to average price increases of approximately 23% for both wine and spirits. Although unit sales do drop in response to the price increases, the increased revenues obtained from higher final prices and the value-based taxes applied to those prices more than offset the drop in sales volume.

*Franchise System - Royalty (28.8% Franchise Value)*

In this scenario, we consider the option of charging the retailer annual royalty fees, which are a percentage of sales rather than flat annual license fees, and slightly increasing the number of retail outlets to 757, which is historically the highest number of outlets the Commonwealth has ever maintained. In addition, we selected wholesale and related retail markups which keep prices at approximately or slightly below current levels.

Based on further discussions with the Governor's office, we also included certain additional transition elements that were not considered for other retail privatization scenarios. First, as part of this scenario, all of the existing PLCB wine and spirits inventory is sold up-front in a one-time sale to clear out inventory from both the stores and the warehouse. We estimate that this would yield approximately \$50 million in Year 1.<sup>6</sup> In addition, based on additional input from the Office of Administration, it was determined that unemployment levels and the associated costs of unemployment insurance for furloughed employees may be overstated. In this scenario, the assumption was adjusted to reflect the costs of a reasonable number of furloughed employees receiving insurance for an average of 16 weeks.<sup>7</sup> In addition, the Governor has developed a Re-employment Tax Credit that will provide \$1,000 per year for two years to employers for each former state employee hired. The costs of this tax credit program are estimated to offset the reduction in transition unemployment costs.

- Royalty Fees: 1% of retail sales revenues
- Franchise Auction Proceeds: 28.8% of the previous year's pre-tax sales  
\$198.45 million
- PLCB Wholesale Markup: 25% for wine; 18% for spirits
- Excise Tax: 18%
- Retail Markup: 25% for wine; 21% for spirits
- Total Retail Licenses Available: 757

The following chart describes the pricing process in this scenario from the COGS to the final price an individual consumer would pay for a sample half gallon (64 oz) bottle of wine.

<b>Pricing (example): Franchise System - Royalty (28.8% Franchise Value)</b>						
COGS ½ gall wine	Apply wholesale markup of 25%	Apply excise tax of 18%	Apply retail markup of 25%	Apply sales tax of 6%	Apply local sales tax of 1%	FINAL PRICE TO CONSUMER
<b>\$4.60→</b>	<b>+\$1.15→</b>	<b>+\$1.04→</b>	<b>+\$1.70→</b>	<b>+\$0.51→</b>	<b>+\$0.08→</b>	<b>\$9.07</b>

The results are as follows:

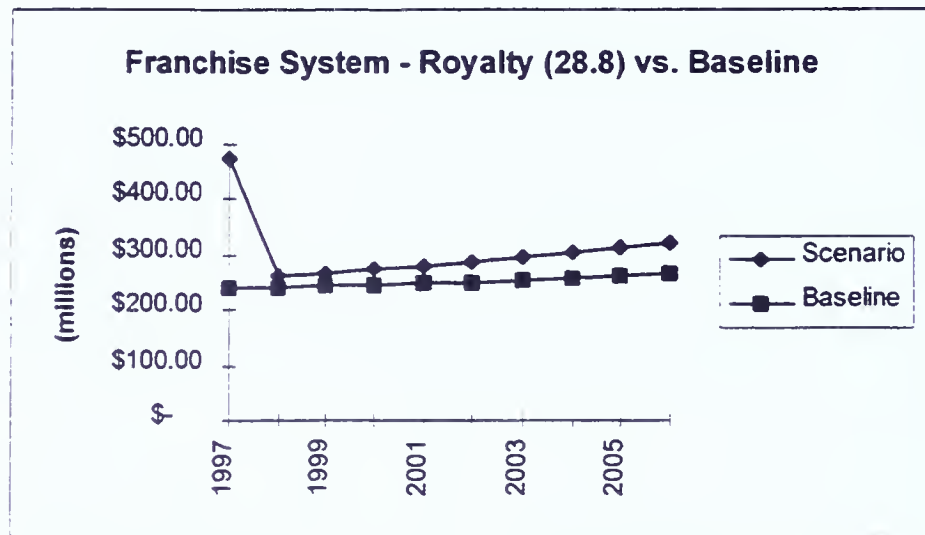
- Ten Year Cash Flows - Difference from Baseline \$ 574.09 million
- First Year Cash Flows - Difference from Baseline \$ 235.09 million
- Initial Average Price Changes -2.07% for wine; -1.52% for spirits
- Total Retail Outlets 757

The following chart provides a comparison of cash flows to the Commonwealth of this scenario to the Baseline.

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<sup>6</sup> The value of the current inventory in the stores and warehouse was discounted at 15% to approximate the amount of revenue that would be obtained from a large scale one-time inventory sale.

<sup>7</sup> In all other privatization scenarios, unemployment costs are based on the assumption that 100 percent of furloughed employees will accrue the average 16 weeks of unemployment benefits. See Appendix I for more discussion of transition costs.



The results of this scenario are a slight improvement over the Franchise System - High Markup scenario. Here, as in the High Markup, the scenario offers large up-front value from the auction proceeds and ongoing annual revenues that are somewhat higher than those in the Baseline. In addition, the royalty fee structure creates approximately \$8 million more annually than the flat license fees. These additional cash flows are slightly offset by the drop in prices which increase unit sales, but decrease total revenues and taxes. The new outlets have limited impact on revenues as total sales levels are not expected to change but simply are redistributed across all stores.

*Franchise System - Royalty (40.0% Franchise Value)*

For this scenario, we considered the potential for the Commonwealth to achieve a higher percentage of annual sales in up-front auction proceeds than the 28.8% experienced in West Virginia. West Virginia demographics and sales projections differ significantly from those of Pennsylvania. In addition, West Virginia auctioned off only liquor rights rather than the wine and liquor rights proposed for Pennsylvania in this scenario. Research into franchise values across different industries indicates a wide range of fee percentages and distribution between up-front and annual fees (see Appendix I for research results). Based on this research as well as the West Virginia experience, we conservatively assumed that the Commonwealth would receive 40% of the previous year's annual sales in auction proceeds. As illustrated by the table below, all other assumptions, including the additional revenues from the inventory sale and the change in unemployment cost calculations, are the same as Franchise System - Royalty (28.8% Franchise Value):

- |                                    |   |
|------------------------------------|---|
| • Royalty Fees:                    | 1% of retail sales revenues             |
| • Franchise Auction Proceeds:      | 40% of the previous year's pretax sales |
|                                    | \$275.63 million                        |
| • PLCB Wholesale Markup:           | 25% for wine; 18% for spirits           |
| • Excise Tax:                      | 18%                                     |
| • Retail Markup:                   | 25% for wine; 21% for spirits           |
| • Total Retail Licenses Available: | 757                                     |



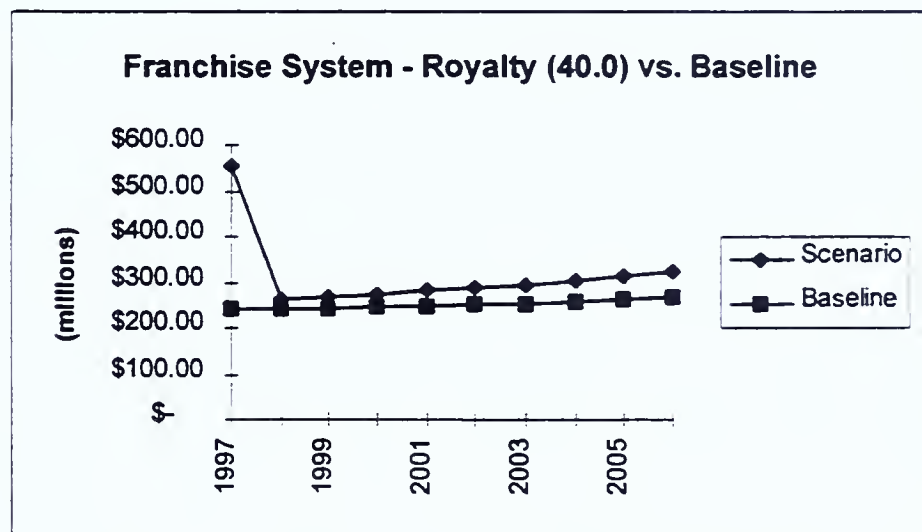
**Pricing (example): Franchise System - Royalty (40.0% Franchise Value)**

COGS ½ gall wine	Apply wholesale markup of 25%	Apply excise tax of 18%	Apply retail markup of 25%	Apply sales tax of 6%	Apply local sales tax of 1%	FINAL PRICE TO CONSUMER
\$4.60→	+\$1.15→	+\$1.04→	+\$1.70→	+\$0.51→	+\$0.08→	\$9.07

The results are as follows:

- Ten Year Cash Flows - Difference from Baseline      \$ 651.27 million
- First Year Cash Flows - Difference from Baseline      \$ 312.27 million
- Initial Average Price Changes                              -2.07% for wine; -1.52% for spirits
- Total Retail Outlets    757

The following chart provides a comparison of cash flows to the Commonwealth of this scenario to the Baseline.



The cash flow to the Commonwealth in this scenario are the same as the Franchise System - Royalty (28.8% Franchise Value) scenario except in Year 1, when the Commonwealth is expected to receive an additional \$77 million in auction proceeds. The cash flows to the Commonwealth in Years 2 through 10 otherwise remain unchanged.

### 3.4c Agency Stores

Under this scenario, the PLCB would maintain its current wholesale and retail pricing structure, but it would exit the retail business. Instead of operating state stores, the PLCB would pay retailers a fixed commission on sales, as was recently done in Ohio after the outsourcing of its retail system in 1991. Retailers may come from a variety of sources (e.g., grocery stores, beer distributors, etc.), but the PLCB would be able to control the number of agents used to sell wine and spirits and the final prices charged. This situation allows the PLCB to maintain direct control over final consumer prices without directly operating the retail network.

We considered three different retail agency store scenarios, varying only the amount of commission in sales that the PLCB would pay to retailers and keeping all else constant. Lower commissions require the retailer to function on a low margin while higher commissions allow the retailers more direct profit from sale of wine and spirits.

The following assumptions are the same for all three scenarios and are essentially identical to the Baseline.

- Retail License Fees: None
- Franchise Auction Proceeds: None
- PLCB Wholesale Markup: 30% for wine and spirits
- Excise Tax: 18%
- Retail Markup: Only OCC by bottle size
- Total Agent Licenses Available: 665

The following chart describes the pricing process from the COGS to the final price an individual consumer would pay for a sample half gallon (64 oz) bottle of wine for all three Agency scenarios. This example is identical to the current PLCB pricing process.

Pricing (example): Agency Store System						
COGS ½ gall wine	Apply wholesale markup of 30%	Add flat rate OCC	Apply excise tax of 18%	Apply sales tax of 6%	Apply local sales tax of 1%	FINAL PRICE TO CONSUMER
\$4.60→	+\$1.38→	+\$1.35→	+\$1.32→	+\$0.52→	+\$0.09→	\$9.25

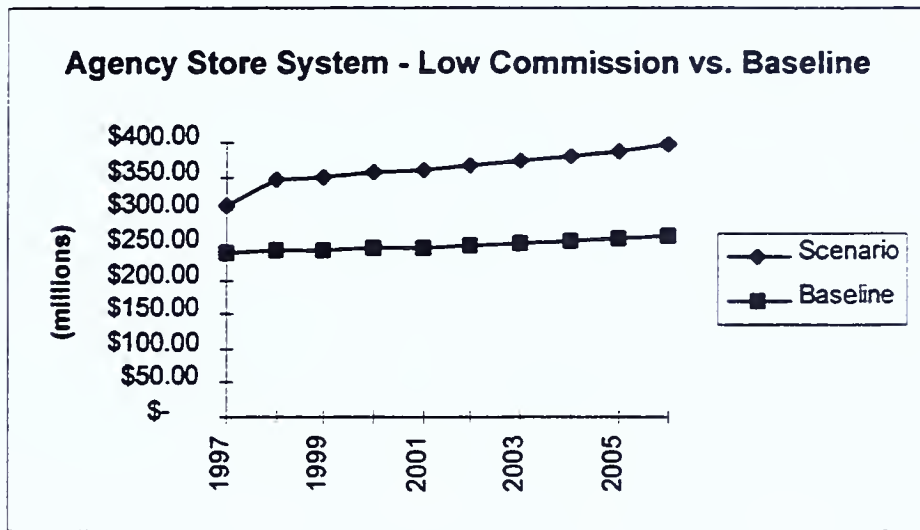
#### *Agency Store System - Low Commission*

In this scenario, agency stores would be paid a 4% commission on all sales to licensees and a 6% commission on all sales to consumers. This directly mirrors the commission structure implemented in Ohio and assumes that agent stores will be grocery stores, pharmacies or other existing retailers that can effectively leverage their current business to operate on relatively low operating margins. It is unlikely that any retailer selling solely wine and spirits could operate profitably based on these commissions.

The results are as follows:

- Ten Year Cash Flows - Difference from Baseline \$ 1,117.84 million
- First Year Cash Flows - Difference from Baseline \$ 68.95 million
- Initial Average Price Changes 0.00% for wine; 0.00% for spirits
- Total Retail Outlets 665

The following chart provides a comparison of cash flows to the Commonwealth of this scenario to the Baseline.



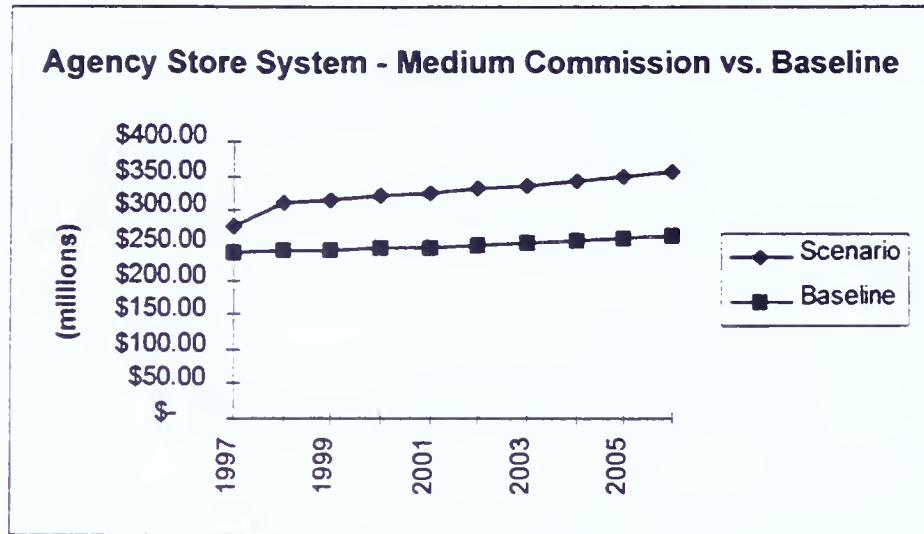
*Agency Store System - Medium Commission*

In this scenario, agency stores would be paid an 8% commission on all sales to licensees and a 10% commission on all sales to individuals. These commissions might allow a smaller retailer who adds wine and spirits sales to their existing product line to operate with a profit. These commissions are probably not high enough to allow a retailer whose primary business is wine and spirits to operate profitably.

The results are as follows:

- Ten Year Cash Flows - Difference from Baseline \$ 761.34 million
- First Year Cash Flows - Difference from Baseline \$ 36.09 million
- Initial Average Price Changes 0.00% for wine; 0.00% for spirits
- Total Retail Outlets 665

The following chart provides a comparison of cash flows to the Commonwealth of this scenario to the Baseline.



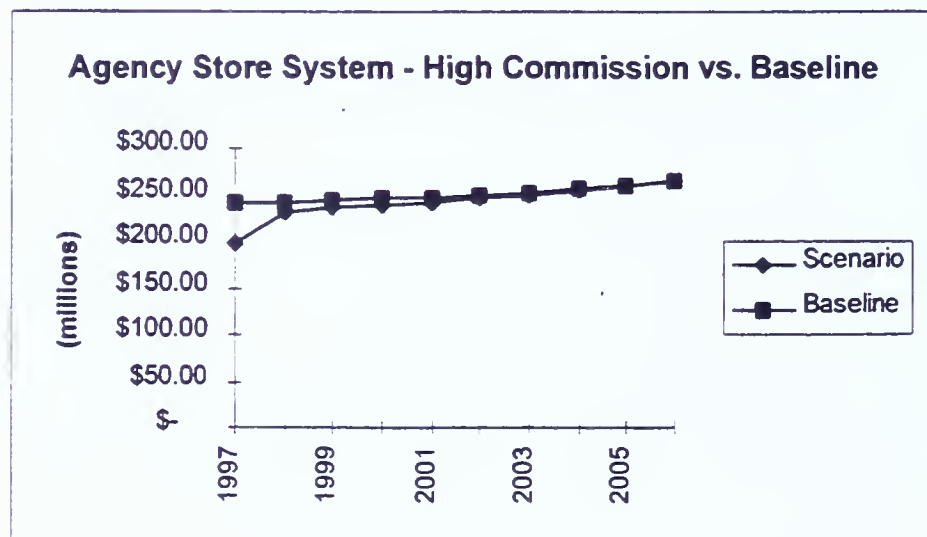
*Agency Store System - High Commission*

In this scenario, agency stores would be paid a 16% commission on all sales to licensees and a 20% commission on all sales to individuals. As the high commission scenario offers larger operating margins, more constraints may be placed on who may own and operate an agency store. These commissions would likely allow stores whose primary business is wine and spirits sales to operate at a profit.

The results are as follows:

- Ten Year Cash Flows - Difference from Baseline      \$ (82.17) million
- First Year Cash Flows - Difference from Baseline      \$ (41.88) million
- Initial Average Price Changes                              0.00% for wine; 0.00% for spirits
- Total Retail Outlets    665

The following chart provides a comparison of cash flows to the Commonwealth of this scenario to the Baseline.





Unlike the other retail privatization scenarios, the primary drivers behind the results in the retail agency store scenarios are not in the revenue items. Instead the primary driver is the cost of operating a retail network. Essentially, the PLCB is maintaining current prices, sales, and other revenues, but eliminating all operating cost in exchange for 4-16% commissions on license sales and 6-20% percent commissions on consumer sales. The difference amounts to over \$60 million in the Medium Commission scenario and over \$90 million in the Low Commission scenario. Almost 100 percent of this cost savings is passed through the PLCB and transferred directly to the Commonwealth. In the case of the High Commission scenario, there is very little difference between the amount paid in commissions and the cost of operating the retail network, and therefore, the 10-Year Total cash flows are very similar to the Baseline.

From the perspective of the Commonwealth, in the Medium and Low Commission cases, the total cash flows increase significantly from the Baseline due to the reduction in PLCB operating costs mentioned above. The other relevant factor for the Commonwealth is that unlike the other retail privatization cases, there is no change in tax revenues because neither prices nor the way in which taxes are incorporated into prices change. By the same logic, there is no change in forecasted sales from the Baseline since there are no price elasticity effects. In comparison to the franchise cases, the main difference is in the timing of the cash flows. In the agency cases, the cash flows are evenly spread across the ten-year forecast period as opposed to the majority of revenues received up-front as in the franchise scenarios.

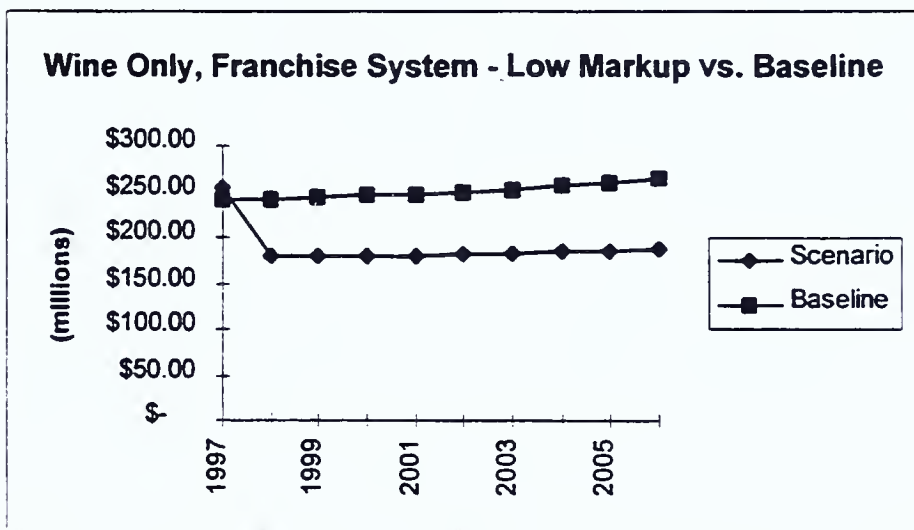
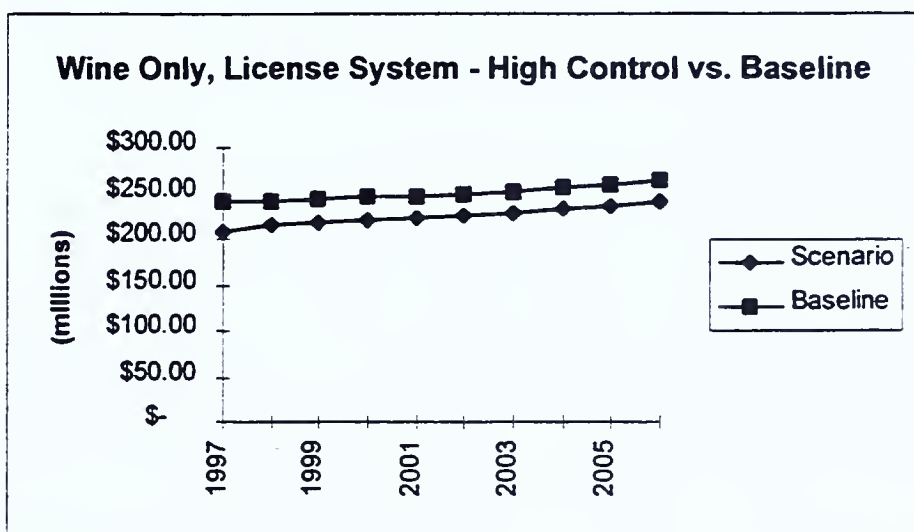
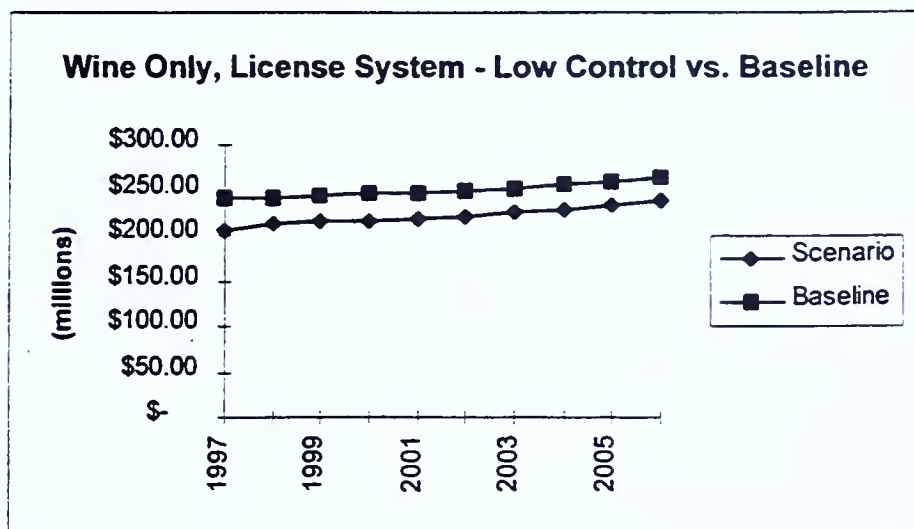
### 3.5 Summary of Retail Privatization Scenarios (Wine Only)

The wine only retail privatization scenarios assume that the PLCB continues to distribute spirits but ceases to distribute wine products through its retail network. Instead, as in the wine and spirits retail privatization scenarios, it relies on private licensees, franchisees, or agents to sell wine at retail. We selected five of the scenarios developed in the previous section for wine and spirits as descriptive of the range of possibilities available for wine only privatization.

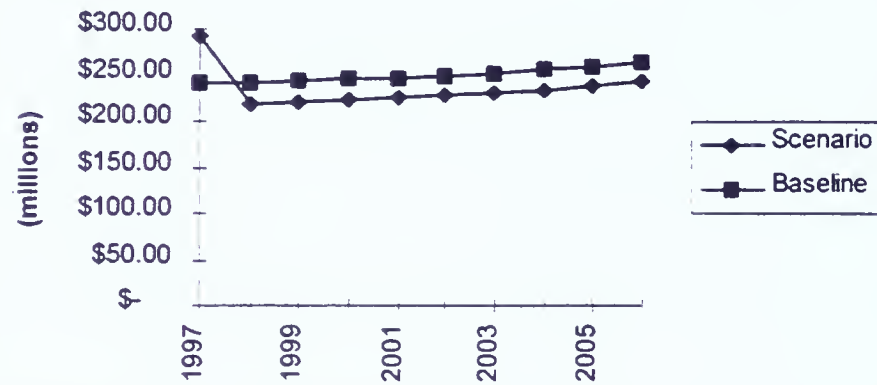
The assumptions for the wine only scenarios are in large part the same as in the wine and spirits scenarios with one major exception. In the wine and spirits scenarios, the PLCB exits the retail industry completely and is able to shed all operating costs associated with running the retail network. In the wine only scenarios, the PLCB is forced to maintain a retail network shedding only 25 to 30 percent of the costs while losing almost 50 percent of retail sales revenues. The results of the five wine only scenarios are summarized below.

Scenario	Retail Privatization Options (Wine Only)		
	Ten Year Cash Flows - Difference from Baseline	Average Retail Price Change	Expected Number of Retail Outlets
License - Low Control	\$ (290.63) million	-2.89% wine; 0.00% sp	6,880 wine; 665 sp
License - High Control	\$ (249.23) million	1.89% wine; 0.00% sp	1,200 wine; 665 sp
Franchise - Low Markup	\$ (606.41) million	-15.39% wine; 0.00% sp	665 wine; 665 sp
Franchise - High Markup	\$ (148.19) million	-0.50% wine; 0.00% sp	665 wine; 665 sp
Agency Store System	\$ 117.64 million	0.00% wine; 0.00% sp	665 wine; 665 sp

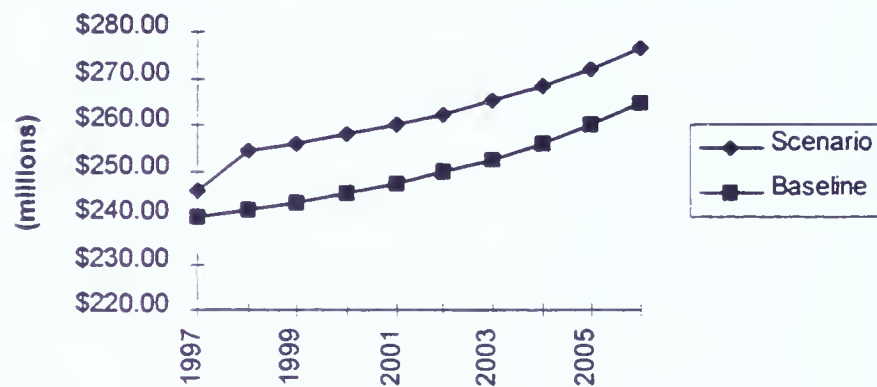
The relative merits of each scenario and relevant issues are very similar to those addressed in the wine and spirits retail privatization scenarios section above. However, the financial results of these scenarios are much weaker, largely due to the continuing costs of operating the retail network for spirits only. The distribution of funds over the 10-year period is also similar as illustrated by the graphs below:



Wine Only, Franchise System - High Markup vs. Baseline



Wine Only - Agency Store System vs. Baseline





### 3.6 Conclusion

After evaluating the initial wide range of scenarios and working with us to develop additional scenarios (all of which are presented in this report), it is our understanding that the Governor has chosen an approach for privatization very similar to that presented in our Franchise System - Royalty (40% Franchise Value) scenario. This scenario offers several financial benefits to the Commonwealth including:

- *Up-Front Cash Flows:* This scenario, based on an assumed franchise value of 40 percent of one year's sales before taxes and a sell-off of PLCB inventory, offers the Commonwealth \$328.11 million in up-front revenue that can be used for a variety of potential programs.
- *Consumer Prices:* With the wholesale and retail markups assumed in this scenario, the prices for wine and spirits decrease slightly from the projected Baseline. In addition, due to the relative inelasticity of demand for wine and spirits, a slight change in price means almost no perceptible change in overall sales levels.
- *Steady Revenue Streams:* In this scenario, the Commonwealth maintains an annual revenue stream just above the projected Baseline.









## Appendix I: Methodology and Assumptions

In order to estimate the value of the wine and spirits industries to the Commonwealth under various scenarios, Price Waterhouse used a cash flow modeling approach. We developed projections for revenues and costs for current and potential players in the industry including the Pennsylvania Liquor Control Board (PLCB) and the Commonwealth, as well as private retailers and wholesalers. The revenues and expenses generated by these players are the basis for estimating the overall value of the industries to the Commonwealth, including sales revenues, sales taxes, liquor taxes, income taxes, and costs for regulation and enforcement.

To provide a standard from which to compare all privatization options, we first developed a Baseline scenario. The Baseline case provides financial projections for the PLCB and the Commonwealth assuming the status quo is maintained, i.e. the PLCB continues to regulate and operate all wine and spirits sales in the Commonwealth as it currently does. Utilizing this Baseline case as the standard, we constructed financial projections for the variety of privatization options under consideration.

The following section offers an explanation of the methods and assumptions used to build the estimates of state value, revenues and costs for both the Baseline and the privatization scenarios. All financial projections were made for a 10-year period (1997-2006). All historical growth rates were developed based on data provided by the PLCB for the five-year period 1992-1996. Detailed forecast data for the Baseline and all privatization scenarios are provided in Appendix II.

### *Demand Forecasts*

To establish projections for future unit sales of wine and spirits in the Commonwealth in the Baseline scenario, Price Waterhouse conducted a review of historical trends and industry data. We analyzed PLCB sales data for wine and spirits from the last five years and examined the forecasts provided by the Jobson Company Wine and Liquor Handbooks, which are alcoholic beverage industry standards. The results were as follows:

ANNUAL SALES GROWTH	PLCB Five-Year Trend	Jobson Predictions for Pennsylvania	Jobson Predictions for the Nation	Average Jobson Predictions
Wine	1.78 percent	0.10 percent	1.00 percent	0.55 percent
Spirits	-2.00 percent	-2.20 percent	-1.90 percent	-2.05 percent

The difference between the five-year trend forecasts and the Jobson forecasts for Pennsylvania reflect the longer time period used by Jobson in making its predictions. In addition, wine sales trends have not been as stable as spirits sales trends; the PLCB five-year trends reflect the recent surge in wine sales across the industry.

Due to the longer timeframe incorporated in the Jobson forecasts, we opted to utilize the Jobson projections rather than the PLCB five-year trends. However, we feel that the Jobson predictions for Pennsylvania are too pessimistic relative to the Jobson predictions for the rest of the nation, particularly in light of the actual five-year sales figures and sales thus far in FY 1997. For these reasons, we selected the averages of the Jobson national and Jobson Pennsylvania forecasts as the most reasonable predictors of wine and spirits sales in Pennsylvania over the next decade. This approach was formulated in conjunction with and approved by PLCB senior management.

### ***Tax Rates***

In all retail privatization cases we have assumed that the present state excise tax of 18 percent remains in place and have used the wholesale markup as the “lever” with which to set the final wholesale price of wine and spirits. In addition, in all cases the 6 percent state sales tax and the 1 percent local sales taxes of Philadelphia and Allegheny counties are assumed to remain in place. Revenues from local sales taxes are calculated based on the assumption that the percentage of total Commonwealth wine and spirits purchases made by consumers in the two counties remains constant at its present level—31 percent.

In the wholesale privatization cases, the *ad valorem* state excise tax is assumed to become a gallonage based tax. The principal reason for the change is the relative difficulty in administration of an *ad valorem* tax on goods sold by the private sector. It is much easier to monitor the number and size of bottles that pass through wholesalers’ warehouses than it is to monitor the value of each transaction at the private wholesale or retail level. Due to the higher potential for underreporting of sales values by retailers for this reason, every state which does not operate wholesale distribution networks for wine and spirits applies a gallonage, not *ad valorem*, tax on those goods. The gallonage taxes proposed for the wholesale privatization cases are \$6.75 per gallon for spirits and \$3.25 per gallon for wine. These rates were chosen to keep the wholesale scenarios reasonably tax-revenue neutral without creating an extreme jump in prices; however, as a result, they are significantly greater than the gallonage taxes in force in other states.

<b>Wine and Spirits Gallonage Taxes in Various States</b>		
<b>State</b>	<b>\$/gallon wine</b>	<b>\$/gallon spirits</b>
National Average	0.68	3.59
NY, NJ, DE, MD Average	0.57	4.45
Florida (Highest in Nation)	2.25	6.50
Proposed Pennsylvania	3.25	6.75

### ***Transfers to Commonwealth and Local Government***

The Price Waterhouse cash flow approach provides an analysis of the impact of wine and spirits sales activity on the Commonwealth’s financial position. The revenues and expenses which accrue to the Commonwealth government are of five types.

- Direct pass-through taxes and license fees;
- Transfers from PLCB operations;
- Commonwealth programs which are funded by the PLCB;
- New Commonwealth activities due to privatization which may or may not be funded by the PLCB;
- Proceeds from IPO privatization of any portion of the PLCB.

The revenues which accrue to the local governments are of two types:

- Local sales taxes;
- Municipal license fees.

Each is described below:

#### **Direct Pass-throughs**

- **State Liquor/Excise Tax**—Liquor tax applied on percentage of sales value (*ad valorem*) at point of PLCB sale; relevant in retail privatization scenarios and Baseline

Liquor Tax Revenues = SUM (Excise Tax Rate \* Sales at pt. of PLCB sale to retailers,  
individuals, and on-premise licensees)

- Gallonage Tax —Liquor tax applied on a gallonage of sales basis; relevant only in wholesale/retail privatization scenarios  
Gallonage Tax Revenues = Sum (Gallonage Tax Rate \* Total # of gallons sold)
- State Sales Tax —Six percent Pennsylvania state sales tax  
Sales Tax Revenues =  $0.06 * (\text{Total sales to individuals or on-premise licensees} + \text{Excise or Gallonage Tax})$
- Corporate Tax —Ten percent Corporate State Tax, calculated only in wholesale/retail privatization scenarios  
Corporate Tax Revenue = State Corporate Tax Rate (9.99%) \* Profit from Private Wholesalers

#### Transfers from PLCB

- Transfers to General Fund—Transfer to the Commonwealth of all PLCB revenues less all PLCB expenses  
Transfer Value = PLCB Operating Revenues + PLCB Agency Revenues - PLCB Operating Expenses - PLCB Agency Expenses (including enforcement costs paid to Pennsylvania State Police) - Transition Costs - Drug and Alcohol Program transfer
- Police Enforcement—Transfer from PLCB; projections based on five-year historical growth
- Drug and Alcohol Program—Transfer from PLCB; projections based on 3% inflationary growth
- Shifted Benefits Cost— Pennsylvania's Civil Service, Payroll Services, and Office of Budget and Administration bill other state agencies for services rendered on a per employee basis; that is, their total costs are equally divided among the total number of employees of the state agencies which they serve. So, for example, if the state Motor Vehicles Agency has 10 percent of total state employees, then the Motor Vehicles Agency pays 10 percent of total Civil Service costs. Assuming that PLCB privatization has a negligible impact on the total number of Commonwealth employees, there is a reduction of Civil Service, Payroll, and Office of Budget and Administration expenses to the PLCB and a transfer of the PLCB's liability to the rest of the Commonwealth's agencies. The value of this shifted cost is calculated as follows:
  - Annuity Hospitalization = Total Baseline benefits/employee \* percentage of benefits which cover annuities hospitalization \* total number of employees furloughed
  - Civil Service = Percentage of employees furloughed \* total cost of Baseline projection for Civil Service services
  - Payroll = Percentage of employees furloughed \* total cost of Baseline projection for Payroll services

#### New Commonwealth Costs

- Tax Enforcement—Cost of enforcing private retail/wholesale sales and corporate tax payments through audits and collection efforts; based on information provided by the Commonwealth's Department of Revenue, cost of audits is calculated as a cost per audit times a percentage of new retail outlets audited annually. Cost of collection efforts is calculated as a percentage of total state taxes.
- Regulatory Costs—We assumed \$0.5 million per year to cover the cost of administering gallonage tax collection in wholesale privatization scenarios and \$1.5 million per year to cover the cost of administering the new regulatory structure in the IPO scenarios. No qualitatively new cost is



associated with retail-only privatizations, as the PLCB continues to maintain direct control over taxation at point of sale and limited adjustments to current regulatory structure are required.

#### IPO

- Proceeds from IPO — Market Value of IPO<sup>1</sup>

#### Local Sales Taxes

- Local Sales Tax —One percent Philadelphia and Allegheny County local sales tax  

$$\text{Local Tax Revenues} = (.01 * \text{Percent of sales in Allegheny and Philadelphia Counties}) * (\text{Total sales to individuals or on-premise licensees} + \text{Excise Taxes or Gallonage Taxes})$$

#### Municipal License Fees

- Municipal License Fees—Fees charged to licensees passed through to local municipalities, projected based on historical five-year growth rate

#### OCC

The PLCB's current pricing system has two basic parts independent of taxes. These are a markup and an "operational cost component" or OCC. The OCC is applied to each unit of liquor sold by the PLCB, with the value assessed dependent on size and whether it is wine or spirits. Historically, the OCC has borne some relation to actual handling costs associated with each unit, but this is no longer the case. It is used today simply to "fine tune" the prices of different products when a uniform markup is considered undesirable at the retail level. Under the retail privatization scenarios considered, we have assumed that the PLCB will move to a straight markup system for its wholesale pricing, as transparency in pricing methods will be important to private retailers purchasing from the state and because the retailers will "fine tune" prices themselves in accordance with the dictates of the market. Under scenarios where the state continues to set final retail prices for wine and/or spirits, the current OCCs were retained, as no change in final retail prices is expected. The OCC for each type and size of liquor is not forecasted to change over time in any scenario. The OCCs presently employed by the PLCB and used in the Price Waterhouse model are as follows:

Spirits		Wine	
Size (Oz)	OCC	Size (Oz)	OCC
1.7	0.50	1.7	1.00
3.4	0.93	3.4	1.00
4.0	0.93	4.0	1.00
5.1	0.93	5.1	1.00
6.3	0.93	6.3	1.00
6.8	0.93	6.8	1.00
8.0	0.93	8.0	1.00
8.5	0.93	8.5	1.00
10.0	0.93	10.0	1.00
10.2	0.93	10.2	1.00
11.8	0.93	11.8	1.00
12.6	0.93	12.6	1.00
12.7	0.93	12.7	1.00
13.6	0.93	13.6	1.00

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<sup>1</sup> See next section for details of IPO calculations.



Spirits		Wine	
Size (Oz)	OCC	Size (Oz)	OCC
16.9	0.93	16.9	1.00
18.9	0.93	18.9	1.25
20.4	0.93	20.4	1.25
23.7	0.93	23.7	1.25
24.0	0.93	24.0	1.25
24.3	0.93	24.3	1.25
25.2	1.05	25.2	1.25
25.4	1.05	25.4	1.25
27.2	1.10	27.2	1.25
28.5	1.10	28.5	1.25
32.0	1.10	32.0	1.25
33.8	1.10	33.8	1.25
37.8	1.10	37.8	1.25
38.1	1.10	38.1	1.25
46.5	1.10	46.5	1.25
48.0	1.10	48.0	1.30
50.7	1.10	50.7	1.35
50.8	1.10	50.8	1.35
59.2	1.45	59.2	1.35
60.8	1.45	60.8	1.35
67.6	1.45	67.6	1.35
76.2	1.45	76.2	1.35
101.4	1.45	101.4	1.95
101.6	1.45	101.6	1.95
135.2	1.45	135.2	2.10
152.4	1.45	152.4	2.10

#### ***IPO Value***

To calculate the market value to the Commonwealth of the initial public offering (IPO) of wine and spirits wholesale and retail operations, our model produces a cash flow analysis of the elements that drive the expected value to investors. The market value is based on a discounted net present value (NPV) of the post-tax profits to the investors, less fees and discount. The net present value calculation assesses the value one would pay today for all future expected private wine and spirits revenues and expenses. From this current value, reductions must be made to account for underwriting and other administrative fees as well as an IPO discount to arrive at an amount the market may be expected to bear. The formula for determining this overall market value is:

$$\text{Market Value} = (\text{NPV}(\text{Profit} - \text{Corporate Taxes}) - \text{transaction costs}) * (1 - \text{IPO discount})$$

The elements of the market value formula are described below.

- Liquor Sales = (Sum (Manufacturers Price \* Number of liquor units sold) + Total gallonage tax) \* (1 + Private Wholesale Markup)
- Wine Sales = (Sum (Manufacturers Price \* Number of wine units sold) + Total gallonage tax) \* (1 + Private Wholesale Markup)

- License fees = Annual fees paid to corporation by retailers for licenses
- Franchise fees = Ten-year fees paid to corporation by retailers for franchises
- Gallonage Tax = Total of Excise taxes paid by corporation to Commonwealth
- Profit = (Liquor Sales + Wine Sales - License and Franchise Fees - Gallonage Tax) \* Wholesale Operating Margin
- Wholesale Operating Margin = For IPO with Retail Licensing, assumed at 23.5%, based on PLCB operating margin in License System - Low Control scenario plus a small increase to account for private operator's efficiency improvements; for IPO with Retail Franchising, assumed at 21%, based on PLCB operating margin in Franchise System - High Markup scenario plus a small increase to account for private operator's efficiency improvements
- Corporate Taxes = Taxes paid by corporation on profits; State corporate tax is assumed at 9.99%, Federal corporate tax is assumed at 35%; State taxes are deductible for the purpose of Federal tax payments
  - State Corporate tax = Profit \* 0.0999
  - Federal Corporate tax = (Profit - State tax) \* 0.35
- Underwriting Fees = Assumed average underwriting fees of 5% of value of sale
- IPO Discount = Assumed average underwriting discount of 10% of value of sale, used to encourage initial investment

### **Baseline Scenario**

#### **Revenues**

Under the Baseline scenario, the PLCB is the only player in the wine and spirits industries in the Commonwealth. Therefore, the PLCB receives all revenues from the sale of wine and spirits, which we categorize as Operating Revenues. Price Waterhouse derived Operating Revenues by first calculating sales on a per bottle size basis and then applying the manufacturers' average price per bottle size. Change in sales over time was calculated using an average between national and Pennsylvania forecasts of wine and spirits sales.<sup>2</sup>

Growth in the manufacturers' prices was calculated using five-year historic trends on a bottle size basis. The formula for deriving total revenues from wine and spirits sales for the PLCB in the Baseline is as follows:

$$(\text{SUM}((\text{mfr. price for each size} * 30\% \text{ wholesale markup}) + \text{OCC by size}^3)) - 7\% \text{ wholesale discount}^4 - \text{pass through discounts}^5 = \text{Total Revenues}$$

Although an excise tax is added to all sales to determine final shelf prices, it has not been listed as a direct revenue to the PLCB because it is passed on in total to the Commonwealth. State and local sales taxes are applied at the register and are also accounted for elsewhere.<sup>6</sup>

The PLCB receives other revenues from non-operating sources as well. These revenue streams, which we categorize as Agency Revenues, include a variety of license fees, bond forfeiture, interest income, enforcement fines, and miscellaneous revenues. The PLCB Agency Revenues in the Baseline are calculated by increasing the previous year's income by a historical five-year average growth rate.

<sup>2</sup> See Page 51 for details of calculation and sources.

<sup>3</sup> Operating Cost Component (OCC) is an additional flat value applied to individual bottle sizes. See Page 54 for a complete listing of current OCCs.

<sup>4</sup> 7% wholesale discounts are discounts offered on all wine and spirits products to on-premise licensees

<sup>5</sup> Pass through discounts are promotional discounts offered by the manufacturer to increase consumer spending for a given product. These discounts do not include any payment discounts offered to the PLCB by manufacturers for early settlement of accounts.

<sup>6</sup> See Page 52 for a discussion of the revenues and expenses accruing to the Commonwealth.

The calculation of revenues in the Price Waterhouse Baseline scenario in historical years (1992-1996) closely approximates the revenues in the financial statements provided by the PLCB.

### **Costs**

The current PLCB costs can be divided into two categories – Operating and Agency Expenses. Operating Expenses include all costs associated with the retail stores. Agency Expenses include such items as wholesale contracts, enforcement, licensing, alcohol education, and transfers to other Commonwealth agencies for services rendered.

On the Operating Expense side for the Baseline case, cost of goods sold (COGS) is calculated directly from forecasted manufacturers' prices and number of units sold. The formula for deriving cost of goods sold for wine and spirits is as follows:

$$(\text{SUM}(\text{mfr. price for each size} \times \text{number of units sold per size})) - \text{manufacturer discounts}^7 = \text{Total COGS}$$

Operating expenses also include store employee wages and benefits. Store employee wages and benefits are calculated from projections of the number of employee hours and the average projected wages and benefits per hour. Store employees are grouped into two main categories, hourly wage employees and salaried employees. Employee hour, wage, and benefit projections are based on the following for these two groups:

	<b>Employee Hours/Year</b>	<b>Wages/Hour</b>	<b>Benefits/Hour</b>
<b>Wage Employees</b>	5-yr historical growth	5-yr historical growth	5-yr historical growth
<b>Salaried Employees</b>	No growth, based on PLCB senior mgmt. projections	2.9% growth, reflecting terms of major union contract	2-2.7% growth, reflecting terms of major union contract

Finally, non-labor store expenses include all costs related to operation of the stores, including items such as contracted repairs, armored collection, security contracts, store leases, and telephone usage. All non-labor store expenses are forecasted based on five-year historical projections.

The majority of Agency Expenses in the Baseline scenario are forecasted based on the five-year historical growth rates. In the few exceptions listed below, growth forecasts were developed based on discussions with and projections provided by PLCB senior management:

- Auditor General—Based on PLCB Comptroller's Office forecasts for 1997-2000, then pegged to inflation (3%)
- Comptroller Operations—Zero growth, based on PLCB Comptroller's Office forecasts
- Bureau of Consumer Relations—Growth rate of inflation (3%), based on discussions with PLCB Comptroller's Office
- Employee Association—Zero growth, based on PLCB Comptroller's Office forecasts
- Bureau of Alcohol Education—Due to planned program growth, 1997 data provided by PLCB Comptroller's Office

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<sup>7</sup> Manufacturer discounts are promotional discounts offered by the manufacturers to increase consumer spending for a given product and payment discounts offered by manufacturers for early settlement of accounts.



- **BMIS Services**—Based on PLCB Comptroller's Office forecasts for 1997 and expected growth rates (approx. 6.5%)

The Drug and Alcohol Program is a transfer to the Commonwealth from the PLCB based on PLCB revenues and expenses. Due to varying levels from year to year, the Drug and Alcohol Program costs cannot be forecasted using historical data. Therefore, it is forecasted at 3% growth per year to approximate inflation.

### ***Privatization Scenarios***

As each privatization scenario is based on a different set of organizational and institutional structures, the resulting revenues and expenses accruing to the PLCB (and, as described above, to the Commonwealth) may change significantly. For each scenario, we developed assumptions on the various changes to markups, taxes, franchise and license fees, store and Agency expenses and transition costs. These assumptions are incorporated into our model to provide final financial results. Descriptions and explanations of these assumptions are provided below.

### **Wholesale and Retail Markups**

Under most privatization scenarios, prices will cease to be set by one agent, the PLCB, as they are today, and instead will be determined by the cumulative markups of wholesalers and retailers over the cost of goods sold by the manufacturers. In order to arrive at final retail price and sales numbers under the various scenarios, we estimated the markups that public and private sector wholesale and retail distributors would apply. We assumed in almost all cases that the PLCB would act so as to prevent the current price level from changing dramatically; however, via the tax rate and/or the wholesale markup, the Pennsylvania Legislature or the PLCB could, under any of these scenarios, raise or lower the price level as it sees fit. As noted earlier, these scenarios are flexible and amenable to reshaping for the purpose of achieving designated policy goals. The markup estimates used were arrived at via:

- examination of the financial statement surveys conducted by two companies, Robert Morris Associates and Dun and Bradstreet, and derivation of markups from average reported gross profit margins at the wholesale and retail levels (note: we make no assumptions about the operating profit margins of private retailers or wholesalers, except in the IPO scenarios as described above under "IPO Value");
- interviews with the Pennsylvania agents of wine and spirits manufacturers and with wholesalers from other states;
- consideration of the base price that each distributor would be facing under each scenario, including taxes;
- consideration of the competitiveness of the wholesale and retail markets under each scenario; e.g. under low control license scenarios, competition and the fact that supermarkets and other retailers with low marginal costs will enter the market is expected to erode retail markups;
- where the PLCB continues to be the wholesaler of wine and spirits, consideration for the required markups of private retailers and a working assumption that large price swings are undesirable.

The assumed markups under each scenario are as follows:

<b>Scenario</b>	<b>Wholesale Markups</b>	<b>Retail Markups</b>
<b>Wholesale and Retail Privatization</b>		
Wholesale/Retail Licensing	Wine: 27 percent Spirits: 24 percent	Wine: 22 percent Spirits: 20 percent
Initial Public Offering with Retail Licensing	Wine: 27 percent Spirits: 24 percent	Wine: 22 percent Spirits: 20 percent



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Initial Public Offering with Retail Franchising	Wine: 27 percent Spirits: 24 percent	Wine: 25 percent Spirits: 22 percent
Retail Privatization of Wine and Spirits		
License System - Low Control	Wine: 27 percent Spirits: 27 percent	Wine: 22 percent Spirits: 22 percent
License System - Medium Control	Wine: 27 percent Spirits: 27 percent	Wine: 25 percent Spirits: 25 percent
License System - High Control	Wine: 27 percent Spirits: 25 percent	Wine: 28 percent Spirits: 27 percent
License System - Price Neutral	Wine: 25 percent Spirits: 18 percent	Wine: 27 percent Spirits: 23 percent
Franchise System - Low Markup	Wine: 8 percent Spirits: 8 percent	Wine: 25 percent Spirits: 25 percent
Franchise System - Medium Markup (665)	Wine: 18 percent Spirits: 18 percent	Wine: 25 percent Spirits: 25 percent
Franchise System - Medium Markup (1,500)	Wine: 18 percent Spirits: 18 percent	Wine: 25 percent Spirits: 25 percent
Franchise System - High Markup	Wine: 27 percent Spirits: 27 percent	Wine: 25 percent Spirits: 25 percent
Franchise System - Price Neutral	Wine: 25 percent Spirits: 18 percent	Wine: 27 percent Spirits: 23 percent
Franchise System - Current Markup	Wine: 60 percent Spirits: 45 percent	Wine: 23 percent Spirits: 23 percent
Franchise System - Royalty (28.8)	Wine: 25 percent Spirits: 18 percent	Wine: 25 percent Spirits: 21 percent
Franchise System - Royalty (40.0)	Wine: 25 percent Spirits: 18 percent	Wine: 25 percent Spirits: 21 percent
Agency Store System - Low Commission	Wine: 30 percent + OCC Spirits: 30 percent + OCC	
Agency Store System - Medium Commission	Wine: 30 percent + OCC Spirits: 30 percent + OCC	
Agency Store System - High Commission	Wine: 30 percent + OCC Spirits: 30 percent + OCC	
Retail Privatization of Wine Only		
License System - Low Control	Wine: 27 percent Spirits: 30 percent	Wine: 22 percent Spirits: OCC
License System - High Control	Wine: 27 percent Spirits: 30 percent	Wine: 28 percent Spirits: OCC
Franchise System - Low Markup	Wine: 8 percent Spirits: 30 percent	Wine: 25 percent Spirits: OCC
Franchise System - High Markup	Wine: 27 percent Spirits: 30 percent	Wine: 25 percent Spirits: OCC
Agency Store System	Wine: 30 percent + OCC Spirits: 30 percent + OCC	

**Revenues**

*Operating Revenues*

Sales: Each privatization scenario under consideration envisions a different distribution and markup system for wine and spirits, and, therefore, a different build-up to the operating revenues received by the

PLCB. In the table below, COGS refers to the total purchase price that the PLCB pays to wine and spirits producers before discounts, including federal excise taxes; the PLCB builds up its shelf price based on this value and then subtracts out "pass-through discounts". Total COGS is a function of total units sold and the price per unit. Privatization of any type is expected to have no effect on the prices per unit of each type and size of liquor sold in Pennsylvania; however, it may effect the number of these units. In the Price Waterhouse model, total sales differs from the Baseline if and only if the average price level for wine and/or spirits differs from the Baseline. See "Elasticities of Demand" below for details on how the model calculates sales changes under the various scenarios:

SCENARIO	PLCB SALES REVENUES
<b>Wholesale and Retail Privatization</b>	
Wholesale/Retail Licensing	Wine: none Spirits: none
Initial Public Offering with Retail Licensing	Wine: none Spirits: none
Initial Public Offering with Retail Franchising	Wine: none Spirits: none
<b>Retail Privatization of Wine and Spirits</b>	
License System - Low Control	Wine: Total COGS * 27% wholesale markup - pass-through discounts Spirits: Total COGS * 27% wholesale markup - pass-through discounts
License System - Medium Control	Wine: Total COGS * 27% wholesale markup - pass-through discounts Spirits: Total COGS * 27% wholesale markup - pass-through discounts
License System - High Control	Wine: Total COGS * 27% wholesale markup - pass-through discounts Spirits: Total COGS * 25% wholesale markup - pass-through discounts
License System - Price Neutral	Wine: Total COGS * 25% wholesale markup - pass-through discounts Spirits: Total COGS * 18% wholesale markup - pass-through discounts
Franchise System - Low Markup	Wine: Total COGS * 8% wholesale markup - pass-through discounts Spirits: Total COGS * 8% wholesale markup - pass-through discounts
Franchise System - Med. Markup (665 and 1500)	Wine: Total COGS * 18% wholesale markup - pass-through discounts Spirits: Total COGS * 18% wholesale markup - pass-through discounts
Franchise System - High Markup	Wine: Total COGS * 27% wholesale markup - pass-through discounts Spirits: Total COGS * 27% wholesale markup - pass-through discounts
Franchise System - Price Neutral	Wine: Total COGS * 25% wholesale markup - pass-through discounts Spirits: Total COGS * 18% wholesale markup - pass-through discounts
Franchise System - Current Markup	Wine: Total COGS * 60% wholesale markup - pass-through discounts Spirits: Total COGS * 45% wholesale markup - pass-through discounts
Franchise System - Royalty (28.8 and 40.0)	Wine: Total COGS * 25% wholesale markup - pass-through discounts Spirits: Total COGS * 18% wholesale markup - pass-through discounts
Agency Store System (All Commission Rates)	Wine: (Total COGS * 30% wholesale markup + OCC) - 7% wholesale discount - pass-through discounts (same as Baseline case) Spirits: (Total COGS * 30% wholesale markup + OCC) - 7% wholesale discount - pass-through discounts (same as Baseline case)
<b>Retail Privatization of Wine Only</b>	
License System - Low Control	Wine: Total COGS * 27% wholesale markup - pass-through discounts Spirits: (Total COGS * 30% wholesale markup + OCC) - 7% wholesale discount - pass-through discounts (same as Baseline case)
License System - High Control	Wine: Total COGS * 27% wholesale markup - pass-through discounts Spirits: (Total COGS * 30% wholesale markup + OCC) - 7% wholesale discount - pass-through discounts (same as Baseline case)
Franchise System - Low Markup	Wine: Total COGS * 8% wholesale markup - pass-through discounts Spirits: (Total COGS * 30% wholesale markup + OCC) - 7% wholesale discount - pass-through discounts (same as Baseline case)



SCENARIO	PLCB SALES REVENUES
Franchise System - High Markup	Wine: Total COGS * 27% wholesale markup - pass-through discounts Spirits: (Total COGS * 30% wholesale markup + OCC) - 7% wholesale discount - pass-through discounts (same as Baseline case)
Agency Store System	Wine: (Total COGS * 30% wholesale markup + OCC) - 7% wholesale discount - pass-through discounts (same as Baseline case) Spirits: (Total COGS * 30% wholesale markup + OCC) - 7% wholesale discount - pass-through discounts (same as Baseline case)

#### Agency Revenues

**Licensing and Number of Outlets:** Under no scenario will privatization impact the licensing revenues from current licensees of the Commonwealth of Pennsylvania, including beer distributors and on-premise licensees. Therefore, revenues under the categories "application fees", "transfer fees", "permit fees", "entertainment fees", and "administrative fees" do not vary from their Baseline forecast values. However, privatization may lead to the collection of new license fees which are categorized as Retail License Fees and Wholesale License Fees. The following table shows the annual license fee, the expected number of licensees, and the total expected revenues from both of these types of licenses under each scenario:

Scenario	Retail Fee	No. of Retail Outlets	Retail Revenue	Outlet Density per 1,000 Pop.	Wholesale Fee	No. of Wholesalers	Wholesale Revenue
<b>Wholesale and Retail Privatization</b>							
Wholesale/Retail Licensing	\$5,000	3,255	\$16.3 million	0.30	\$7,000	60	\$420,000
IPO with Retail Licensing	\$0	3,255	\$0	0.30	\$0	1	\$0
IPO with Retail Franchising	\$0	665	\$0	0.06	\$0	1	\$0
<b>Retail Privatization of Wine and Spirits</b>							
License System - Low Control	\$5,000	3,255	\$16.3 million	0.30	\$0	0	\$0
License System - Medium Control	\$5,000	2,200	\$11.0 million	0.20	\$0	0	\$0
License System - High Control	\$5,000	1,200	\$6.0 million	0.11	\$0	0	\$0
License System - Price Neutral	\$5,000	665	\$3.33 million	0.11	\$0	0	\$0
Franchise System - Low Markup	\$1,000	665	\$0.67 million	0.06	\$0	0	\$0
Franchise System - Medium Markup (665)	\$1,000	665	\$0.67 million	0.06	\$0	0	\$0
Franchise System - Med. Markup (1,500)	\$1,000	1500	\$1.5 million	0.14	\$0	0	\$0
Franchise System - High Markup	\$1,000	665	\$0.67 million	0.06	\$0	0	\$0
Franchise System - Price Neutral	\$1,000	665	\$0.67 million	0.06	\$0	0	\$0
Franchise System -	\$1,000	665	\$0.67	0.06	\$0	0	\$0

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Scenario	Retail Fee	No. of Retail Outlets	Retail Revenue	Outlet Density per 1,000 Pop.	Wholesale Fee	No. of Wholesalers	Wholesale Revenue
Current Markup			million				
Franchise System - Royalty (28.8)	\$0	757	\$0	0.07	\$0	0	\$0
Franchise System - Royalty (40.0)	\$0	757	\$0	0.07	\$0	0	\$0
Agency Store System - All Commissions	\$0	0	\$0	0.06	\$0	0	\$0
<b>Retail Privatization of Wine Only</b>							
License System - Low Control	\$500	6,880	\$3.44 million	0.63	\$0	0	\$0
License System - High Control	\$500	1,200	\$0.6 million	0.11	\$0	0	\$0
Franchise System - Low Markup	\$500	665	\$0.33 million	0.06	\$0	0	\$0
Franchise System - High Markup	\$500	665	\$0.33 million	0.06	\$0	0	\$0
Agency Store System	\$0	0	\$0	0.06	\$0	0	\$0

License fees for new private retailers and wholesalers and the predicted number of private retail and wholesale outlets in the various privatization scenarios were determined based upon a review of license fees and licensees in states with similar structures. For example:

State	Retail Wine License Fee	Wine Outlet Density (per 1,000 pop.)	Retail Wine/Spirits License Fee	Wine/Spirits Outlet Density (per 1,000 pop.)	Wine/Spirits Wholesale License Fee
Delaware	N/A	N/A	\$500	0.54	unknown
Iowa	\$500	unknown	\$5,000 average	0.15	N/A
Maryland	varies by county	1.17	varies by county	0.89	unknown
New Jersey	N/A	N/A	\$100-\$2000	0.24	\$7,000
New York	\$125-\$500	1.24	\$500-\$1,100	0.15	\$7,000
National Average	unknown	0.63	unknown	0.44	unknown

We assumed a \$5,000 fee for a wine and spirits off-premise retail license based on the average fee instituted in Iowa subsequent to the privatization of its state stores in 1987; fees in Iowa are on a sliding scale that takes into account both the size of the store and the population of the surrounding area. The \$500 license fee for a wine-only off-premise retail license is also based on Iowa's fee for a similar license. The \$1,000 license fee for franchised wine and spirits retail outlets is based on the comparable fee in the state of West Virginia where a retail franchise system was instituted.

The predicted 3,255 licensees for retail licenses in a low control environment is based on an average 0.30 outlets per 1,000 population in the Commonwealth; the comparable number in Iowa is 0.15 outlets per 1,000 population, but the average for the nation as a whole is 0.44 outlets per 1,000 population. The actual national average was thought too high a figure for Pennsylvania under this scenario because the \$5,000 license fee is much higher than typical fees in other states, which are generally in the \$700 range. On the other hand, income and demographic differences with Iowa and the fact that New York,



which is a high control state in terms of licensing spirits sales, has only 0.15 spirits outlets per 1,000 population led to the conclusion that 0.15 outlets per 1,000 for Pennsylvania in a low control scenario would be too few. The 0.30 we used is an average of the Iowa and national figures. The 6,880 wine retail outlets in the Wine-Only - Low Control scenario is based on the national average of 0.63 off-premise wine retailers per 1,000 population.

The 1,200 retailers predicted under the License System - High Control and the Wine Only, License System - High Control scenarios are based on the number of retail beer distributors in Pennsylvania (approximately 1,100) plus some allowance for entry into the market; since the scenario presumes that retailers must derive 90 percent of their revenues from alcoholic beverage sales, it is supposed that only beer distributors and a few specialty stores and extremely well-located shops will actually qualify for and purchase licenses. The 757 stores in the Franchise System - Royalty cases is based on the greatest number of state stores that have ever existed in the Commonwealth at one time.

The 1,500 retailers assumed in the second Franchise System - Medium Markup case is not based on history or another state, but is a demonstration of the possibility of expansion of Pennsylvania's wine and spirits retail network within the franchise framework. The 2,200 retailers assumed in the License System - Medium Control case is a demonstration of the Commonwealth's ability, through population quotas and percentage sales requirements, to pick out availability targets that are less restrictive than the current system but less liberal than an unlimited licensing system.

All scenarios where the number of retail outlets is projected to be 665 or 757 are predicated on the assumption that the legislature or PLCB will prevent the number of retail outlets in Pennsylvania from rising significantly from current levels.

Wholesale license fees and number of wholesale outlets were based on the current structure in New York and New Jersey. Both states have approximately 60 wholesalers and charge \$7,000 for annual licenses. Despite the variation in size between New York and New Jersey, a similar wholesale outlet number and fee structure exists due to the common regional market. Given the proximity of these two states to Pennsylvania, we assumed that the New Jersey/New York structure would prevail in Pennsylvania.

Franchise fees: In the retail franchise privatization scenarios, the PLCB would offer franchise rights to specific geographic areas to private retailers. In these cases, franchises for 10-year periods are auctioned off and the high bidders pay their bid values as an up-front fee to the PLCB. These auction proceeds are expected to be much larger than license fees since they are collected once to cover a 10-year period and because the auction format will encourage competition among would-be franchisees. Yearly license and royalty fees may continue to be charged in these scenarios, but they are at relatively low rates due to the up-front franchise payment.

For most franchise scenarios, franchise auction proceeds were estimated based on the results of the franchise auction held by the state of West Virginia when it privatized its state liquor stores in 1990 and 1991. This auction yielded a total value of 28.8% of the previous year's sales revenues. However, as West Virginia is the only state to have privatized liquor sales through an auction process, we also undertook a survey of some private sector franchise relationships as a reasonableness check on our franchise auction value estimate. In a conventional, private franchise agreement, the franchiser may receive cash payments of up to three types:

1. Franchise fee—fixed fee which may be required in one lump sum up-front or permitted in installments;
2. Royalty fee—usually a percentage of gross sales paid monthly or weekly;
3. Advertising fee—many franchisers break out advertising costs and charge a separate fee for them.

As it is not expected that the PLCB will, as a franchiser, provide advertising support for private franchisees, the last of these three payments was not included in our analysis. The following table shows the franchise and royalty fees charged by a variety of American franchisers according to two surveys, from *The Franchise Annual Directory* and *Franchise Times Magazine*:

<b>Franchiser/Industry</b>	<b>Franchise Fee</b>	<b>Royalty</b>
De Dutch Pannekoek House - Restaurant	\$37,500	5.0%
Gonin's Homemade Café & Grill	\$18,500	5.0%
Mr. Subb - Restaurant	\$15,000	6.0%
Roger Dunn Golf Shops	\$45,000	3.0%
Brewster's Coffee - Coffee Shop	\$10-20,000	6.0%
Digiad - Internet Advertising, Marketing	\$13,999	3.0%
Cyber Exchange - Software Sale/Resale	\$10,000	5.0%
...It Store - Gifts/Novelties	\$25,000	6.0%
AWC Commercial Window Coverings	\$35,000	8.75%
Critter Care - Pet/House Sitting Service	\$8,500	5.0%
The Housesitters - Pet/House Sitting, Cleaning	\$25,000 min	8.0%
Rent-a-Wreck - Car Rental	\$10-\$30,000	6.0%
Thrifty Car Rental - Car Rental	\$15-250,000	5.0%
Wear Master - Muffler and Break Service	\$10,000	5.0%
Custom Auto Restoration - Auto Restoration	\$995 - \$5495	0.0%
Impressions On Hold - Phone Systems	\$27,500	4.0%
P.A.S.S. Packaging and Shipping	\$22,500	0.0%
Paystation - Payroll Security Services	\$10,000	0.0%
Tutor Time - Child Care/Learning Center	\$32,000	5.0%
Bio Ped Foot Care Centers	\$30-\$100,000	8.0%
Snip 'n Clip - Haircut Shop	\$10,000	5.0%
The Cyclepath - Bike Shop	\$40,000	0.0%
McDonald's - Restaurant	\$45,000	4.0%
Interim Services - Business Services	\$9-\$30,000	5.0%
Dunkin' Donuts - Restaurant	\$0-\$40,000	6.0%
Holiday Inns - Hotels, Motels, Campgrounds	\$35,000-\$75,000	5.0%
Medicine Shoppe - Retail, Specialty	\$10,000-\$18,000	5.5%
General Nutrition Centers - Service Businesses	\$25,000-\$27,000	6.0%
Sylvan Learning Center - Child/Adult Ed	\$44,210-\$54,210	8.5%
Wendy's - Restaurant	\$30,000	4.0%
Pizza Hut - Restaurant	\$25,000	6.75%
Taco Bell - Restaurant	\$45,000	5.5%
Radio Shack - Retail, Specialty	\$50,000	0.0%
Coldwell Banker - Real Estate	\$20,000-\$47,000	4.0%
International House of Pancakes - Restaurant	\$50,000-\$600,000	4.5%
Service Master - Service Businesses	\$13,650-\$25,500	7.0%
Ramada Inns - Hotels, Motels, Campgrounds	\$35,000	4.0%
Super 8 Motels - Hotels, Motels, Campgrounds	\$20,000	5.0%
Dairy Queen Brazier - Restaurant	\$30,000	4.0%



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Franchiser/Industry	Franchise Fee	Royalty
Kentucky Fried Chicken - Restaurant	\$6,250-\$25,000	4.0%
Hertz - Automotive Rental	\$1,000-\$300,000	4.0%
Mail Boxes Etc. - Business Services	\$4,500-\$24,950	5.0%
Burger King - Restaurant	\$40,000	3.5%
Midas - Automotive	\$20,000	10.0%

While there are significant differences between private franchise arrangements and the projected Pennsylvania wine and spirits franchise situation, average franchise and royalty fees are reasonable indicators of what the Commonwealth could expect from a franchise auction (or reasonably charge in royalty fees). The average royalty fee charged by the 45 franchisers listed above is 4.8%, with a standard deviation of 2.3%. This implies that roughly two thirds of franchisers charge between 2.5% and 7.1% of gross sales to their franchisees. On the low end of the spectrum, 2.5% of annual sales over ten years is only slightly less than 28% of one year's sales. On top of the royalty fee, franchisees are also paying an average up-front franchise fee of nearly \$34,000. This provides some evidence that the 28.8% of sales figure derived from the West Virginia experience may be conservative for an estimate of Pennsylvania's gains from a franchise auction. For this reason, we ran one scenario, Franchise System - Royalty (40.0), with an estimate of auction proceeds equal to 40.0% of 1996 sales.

Estimated 10-year franchise right auction proceeds for the relevant scenarios are shown in the table below. Note that in the IPO with Retail Franchises scenario, franchise fees are collected by the private corporation and are not direct revenues to the PLCB. Therefore, that scenario is not included:

Scenario	1996 Sales Revenue	10-Year Franchise Fees (collected in Year 1)
<b>Retail Privatization of Spirits and Wine</b>		
Franchise System - Low Markup	\$689 million wine+spirits	\$ 198 million (28.8%)
Franchise System - Medium Markup (665)	\$689 million wine+spirits	\$ 198 million (28.8%)
Franchise System - Medium Markup (1500)	\$689 million wine+spirits	\$ 198 million (28.8%)
Franchise System - High Markup	\$689 million wine+spirits	\$ 198 million (28.8%)
Franchise System - Price Neutral	\$689 million wine+spirits	\$ 198 million (28.8%)
Franchise System - Current Markup	\$689 million wine+spirits	\$ 198 million (28.8%)
Franchise System - Royalty (28.8)	\$689 million wine+spirits	\$ 198 million (28.8%)
Franchise System - Royalty (40.0)	\$689 million wine+spirits	\$ 276 million (40.0%)
<b>Retail Privatization of Wine Only</b>		
Franchise System - Low Markup	\$ 285 million wine only	\$ 82 million (28.8%)
Franchise System - High Markup	\$ 285 million wine only	\$ 82 million (28.8%)

**Royalty Fees:** In most franchise scenarios, we used the West Virginia model and assumed a per store per year license fee of \$1,000 in addition to the auction values. However, in two scenarios, Franchise System - Royalty (28.8) and Franchise System - Royalty (40.0), we substituted a royalty fee of 1 percent of retail sales for the flat \$1,000 license fee.

**Enforcement Fines:** Enforcement fines under the various scenarios are predicted to rise in a one-to-one ratio with the expenditures of the Pennsylvania State Police beginning in Year 1 of privatized operations (see "Licensing, Contracting, Monitoring" below). Ongoing enforcement fines in Years 2-10 are expected to change at the same growth rate as in the Baseline case. The expected rises in Year 1 are as follows:

Retail Privatization of W&S		Retail Privatization of Wine		Wholesale and Retail Privatiz.
License - Low Control	13%	License - Low Control	30%	Wholesale/Retail Licensing 15%
License - Medium Control	9%	License - High Control	1%	IPO - Retail Licensing 15%
License - High Control	1%	Franchise - Low Markup	5%	IPO - Retail Franchising 5%
License - Price Neutral	1%	Franchise - High Markup	5%	
Franchise - Low	5%	Agency Store System	5%	
Franchise - Medium (665)	5%			
Franchise - Medium (1,500)	5%			
Franchise - High	5%			
Franchise - Price Neutral	5%			
Franchise - Current	5%			
Franchise - Royalty (28.8)	5%			
Franchise - Royalty (40.0)	5%			
Agency Store System (All Commissions)	5%			

Bond Forfeiture, Interest Income, Miscellaneous Revenue: Privatization is not expected to significantly impact these revenue streams. The Baseline forecasts are assumed to hold under all scenarios.

### Costs

Depending on the scenario, the various components of Operating and Agency Expenses may rise or fall. For each privatization scenario considered, Price Waterhouse determined the one-time rise or drop in the cost associated with each component in Year 1 of privatized operations. For Years 2-10, each cost was assumed to grow from its 1997 base at the same rate it is predicted to grow in the Baseline scenario. In short, privatization is expected to affect the base level of costs, but not the rate of growth of each cost considered individually. The percentage increases/decreases noted below are the immediate percent change from Baseline expected in Year 1 for the relevant expenses.

### *Operating Expenses*

Cost of Goods Sold: Retail privatization is assumed to have no impact on cost of goods sold (COGS), other than through its effects on total sales. Therefore, as in the Baseline case, COGS is calculated as a function of the manufacturers' price for each size unit of wine and spirits, the number of units sold of each size, and the manufacturers' discounts. The number of units under each scenario is determined by the calculated change in average price of each scenario and the assumed price elasticities of demand.<sup>8</sup> The manufacturers' discounts remain the same proportion of pre-discount COGS as in the Baseline case.

In the wholesale and retail privatization options, the PLCB no longer sells wine or spirits. Under these scenarios, COGS becomes zero.

Store Employee Salaries and Benefits: Under all scenarios other than the "wine-only" scenarios, all of these costs are eliminated, as the state stores cease to exist. The store employees include full-time and part-time clerks as well as store managers. Under "wine-only" privatization scenarios, the state stores remain, but their annual unit sales are reduced by about 45 percent (the approximate unit-share of wine sales) in Year 1 of the privatization. Based on information provided by PLCB management, the economies of scale in staffing mean that a 45 percent reduction in unit sales will not result in a full 45 percent reduction in staffing needs. Based on the PLCB staffing formula, we calculated that the

<sup>8</sup> See Page 73 for a complete explanation.



privatization of wine sales would result in a 33 percent reduction in staff and associated wages and benefits at the store level. This same percentage is also assumed to apply to *ongoing* overtime, shift differential pay, higher classification pay, unemployment compensation, sick leave payout, and annual leave payout. Leave payouts and unemployment charges resulting directly from privatization are accounted for elsewhere in the model (see "Transition Costs" below).

A portion of the benefits "earned" by all Commonwealth employees, including those of the PLCB, pay for annuitants' medical insurance. The furloughing of PLCB employees will reduce the PLCB's assessed portion of annuitants' medical costs, but will not reduce the Commonwealth's overall liability. The PLCB savings will be shifted as costs to other Commonwealth agencies, and these costs are accounted for under "Transfers to State/Commonwealth" above.

**Retail Agency Payments:** Retail agency payments refer to the commissions paid to the agents with whom the PLCB contracts under the four agency store scenarios. The commission levels charged by Ohio, a state in which there are very few restrictions on what type of business may become an agent store, are 4 percent of sales to on-premise licensees and 6 percent of sales to individual customers. However, these commission rates would be too low to attract agents in situations where significant restrictions on agents existed. For example, a business which sold only wine and spirits would likely have difficulty making a profit at 4 and 6 percent commission levels. Therefore, we tested the model at various commission rates to account for the range of restrictions which the state might choose to implement. Our assumptions in each scenario were as follows:

Agency Store Scenario	Commission on Sales to Licensees	Commission on Sales to Individuals
Wine and Spirits - Low Commission	4%	6%
Wine and Spirits - Medium Commission	8%	10%
Wine and Spirits - High Commission	16%	20%
Wine Only - Low Commission	4%	6%

**Other Store Expenses:** Under all scenarios other than "wine only" these costs are entirely eliminated. They include store-related operating expenses from bank charges for checks and credit card service fees to armored car collection, heating fuel, contracted maintenance, and telephone charges. However, we believe that in the first year of privatization, a portion of these costs will necessarily remain. These first-year "transition costs" of the stores are accounted for separately (see "Transition Costs" below).

Under the wine only privatization scenarios, most of the other store expenses, which are overhead costs, remain at their present level. The rest are expected to diminish. They are:

- **Bank Charges for Checks**—decrease 25 percent; bank charges are a function of number of checks, not value. Customers who presently prefer to pay by check would presumably continue to do so, although some of these can be assumed to be primarily wine consumers who will no longer be using state stores and some can be assumed to increase cash payments because the total value of their purchases will be reduced. The PLCB keeps no records which would allow empirical investigation of actual results. We assumed that these charges decrease by somewhat less than total sales decrease (39 percent), and selected 25 percent as a conservative figure .
- **Credit/Debit Card Services**—decrease 39 percent; these charges (interchange fees) are directly proportional to sales, which will decrease by 39 percent under wine-only privatization scenarios.
- **Medical Supplies Issued from Stock and Apparel Issued from Stock**—Decrease in direct proportion to the decrease in number of employees, 33 percent.

- Rent of Real Estate, Store/Warehouse Rent, Real Estate Taxes, Amortization of Leaseholds—decrease 15 percent; while the number of units sold will decrease by about 45 percent, the expenses required to move existing stores and higher rates per square foot for smaller stores imply a less than proportional decrease in real estate-related costs. Discussions with PLCB Retail Management and Real Estate Bureau staff yielded 15 percent as a best estimate.

#### *Agency Expenses <sup>9</sup>*

Licensing, Contracting, and Monitoring: Privatization entails increasing some PLCB expenses to account for licensing, contracting, and monitoring the new private operators in the wine and spirits markets. Current expenditures for fulfilling these responsibilities with respect to retail and wholesale beer distributors and on-premise licensees fall under six categories: enforcement (a cash transfer to the State Police), administrative law judges, licensing, investigations, hearing examiners, and legal.

Presently, approximately 10 percent of cases heard by administrative law judges (ALJs) involve beer distributors, of which, when one includes the importing (wholesale) distributors, there are approximately 1,300. These cases account for approximately 10% of the ALJ budget. Also, we assume that this 10 percent is a proxy for the percentage of the Pennsylvania State Police's alcohol law enforcement budget expended in monitoring beer distributors (because the ALJ case-load is a result of the enforcement efforts of the police). Therefore, we assume that every increase of 1,300 in the number of off-premise licensees (i.e. privatized wine and spirits stores) would require a 10 percent increase in enforcement costs and administrative law judge costs. Similarly, we assume that each 1,300 increase in off-premise licensees would result in a 7 percent increase in the licensing and investigations budget, based on the current costs associated with licensing and investigating beer distributors. In the agency store cases, there is no new licensing, but there are increases in investigations due to assessing potential agents; in the IPO scenarios, there are no additional costs as the PLCB takes on no new licensing responsibilities.

Hearing examiners deal almost exclusively with on-premise licensees, hearing complaints by the public with regard to alcoholic beverage licensees; for example, a community may not wish to have a bar in its neighborhood. Nevertheless, privatization may lead to a significant increase in the number of off-premise licensees and a corresponding increase in demand for hearings. In scenarios where the number of retail outlets increased to at least 1,500, the hearing examiner budget was assumed to rise 10 percent; in cases where it rose to less than 1,500 it was assumed to rise 2-3 percent; and in cases where the number of outlets increased by no more than the current number of state stores it was assumed to stay constant.

In all retail privatization scenarios the legal budget was assumed to rise 10 percent in order to account for the new class of licensees and the issues associated with them. The only exception is agency store scenarios in which the budget was assumed to rise 25 percent, as the nature of the agency system is contractual rather than license-based. Under the wholesale licensing scenario the legal budget rises 15 percent in order to account for two new classes of licensees, wholesale and retail. Lastly, under the IPO scenarios, legal costs do not rise at all. Instead, a new agency to regulate the new monopoly is assumed to become a cost to the Commonwealth (see "Transfers to State" above).

The chart below summarizes the expected increases in the costs of licensing, contracting, and monitoring under the various scenarios:

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<sup>9</sup> All Agency Expense assumptions were made in conjunction with PLCB employees.



**Privatization Analysis of the  
Pennsylvania Liquor Control Board**

Scenario	Enforcement and Administrative Law Judges	Licensing	Investigations	Hearing Examiners	Legal
<b>Wholesale and Retail Privatization</b>					
Wholesale/Retail Licensing	15%	19%	19%	10%	15%
IPO with Retail Licensing	15%	-	-	10%	-
IPO with Retail Franchising	5%	-	-	-	-
<b>Retail Privatization of Wine and Spirits</b>					
License System - Low Control	13%	19%	19%	10%	10%
License System - Medium Control	9%	12%	12%	10%	10%
License System - High Control	1%	8%	8%	3%	10%
License System - Price Neutral	1%	4%	4%	-	10%
Franchise System - Low Markup	5%	4%	4%	-	10%
Franchise System - Medium Markup (665)	5%	4%	4%	-	10%
Franchise System - Med. Markup (1,500)	5%	8%	8%	-	10%
Franchise System - High Markup	5%	4%	4%	-	10%
Franchise System - Price Neutral	5%	4%	4%	-	10%
Franchise System - Current Markup	5%	4%	4%	-	10%
Franchise System - Royalty (28.8 and 40.0)	5%	4%	4%	-	10%
Agency Store System - All Commissions	5%	-	4%	-	25%
<b>Retail Privatization of Wine Only</b>					
License System - Low Control	30%	38%	38%	10%	10%
License System - High Control	1%	8%	8%	2%	10%
Franchise System - Low Mark.	5%	4%	4%	-	10%
Franchise System - High Mark.	5%	4%	4%	-	10%
Agency System Outlets	5%	-	4%	-	25%

**Payments to Other Agencies:**

- **Auditor General**—Under all retail privatization scenarios the PLCB will continue to manage large cash flows. In these cases we used the Baseline projections for payments to the state's Auditor General. Under the wholesale/retail privatization scenarios, the PLCB will no longer have operating earnings, and the earnings from license fees are assumed to be too insignificant to merit an independent audit from the Auditor General. In these cases this expense is assumed to be zero.
- **Comptroller Operations**—Presently, the Comptroller accounts for inventories and cash flows at the warehouse, agency, and store levels. Under most wine and spirits retail privatization scenarios, some of these duties are no longer required. Based on conversations with the Comptroller, we determined that a total of 27 percent of Comptroller Operations could be eliminated in the retail licensing and retail franchising of wine and spirits scenarios. Under wine only and agency store

scenarios, the Comptroller's responsibilities for retail inventory management remain, and no reduction in Comptroller expenses is expected. Under wholesale scenarios, 5 percent of the Comptroller budget is expected to remain in order to account for the small flow of licensing and administrative costs and revenues.

- **Treasury**—The State Treasury charges the PLCB for managing the moneys earned by the Board before they are transferred to the State. Under retail privatization scenarios, the PLCB will continue to have regular revenues and expenses of comparable magnitude to the Baseline case and we assumed that Treasury money management fees would remain the same. In the case of wholesale privatization, all moneys earned by the state are collected either in the very beginning (as with the IPO proceeds) or annually (as in license fees), so the need for regular money management is reduced. We assumed that Treasury fees would be reduced 99 percent under any wholesale privatization scenario.
- **General Services**—The large majority of General Services billings to the PLCB are for lease processings, which will be eliminated if the state stores are privatized. We estimated that 85 percent of these expenses would be eliminated under retail wine and spirits privatization scenarios, 15 percent under wine-only privatization scenarios, and 100 percent under wholesale privatization scenarios.
- **Civil Service, Payroll Services, Office of Budget and Administration**—Pennsylvania's Civil Service, Payroll Services, and Office of Budget and Administration bill other state agencies on a per employee basis. Therefore, assuming that PLCB privatization has a negligible impact on the total number of Commonwealth employees, the reduction of these PLCB expenses is directly proportional to the reduction in its workforce. Under wine and spirits retail privatization scenarios, this reduction is 85 percent, under wine only retail privatization 28 percent, and under wholesale privatization 97 percent. However, we expect that all of these savings will be shifted as costs to other agencies; this issue of shifted costs is addressed in "Transfers to State/Commonwealth" above.
- **Miscellaneous Agencies, BMIS Services**—These categories refer largely to information and technology services supporting operations. These costs will remain at 100 percent of their current level in all retail privatization scenarios, where the PLCB remains involved in operations. Under wholesale privatization scenarios these costs are eliminated.

**Stores and Purchasing Administration:**

- **Bureau of Logistics**—This bureau is responsible for the PLCB's wholesale operations. It will remain at 100 percent of Baseline under any retail privatization scenario, where the PLCB remains in control of wholesaling, and be eliminated entirely under any wholesale privatization scenario.
- **Regional Supervision, Director Retail Management**—These costs are associated with the centralized management functions of the state stores. Under wine and spirits retail and wholesale privatization scenarios they are entirely eliminated. The only exceptions are the retail agency stores cases, in which the PLCB will still retain considerable control over retailing; in this case, Director Retail Management funds remain at 100 percent and Regional Supervision funds are cut by half. Under wine-only privatization scenarios these costs are projected to fall by 15 percent, except in the agency stores wine-only scenario, where they are projected to rise by 10 percent.
- **Bureau of Real Estate, Real Estate Maintenance**—Only 5 percent of these costs are incurred for non-store real estate such as regional licensing offices. Under all wine and spirits retail and wholesale privatization scenarios they are projected to fall by 95 percent. Under all wine-only privatization scenarios they are assumed to remain at their current level.



Alcohol Education Expenses, Executive Expenses: Education expenses are not expected to change from the Baseline under any scenario. Executive expenses (press office, board, secretary) are assumed to remain unchanged so long as the PLCB remains in the wholesale business. Under the wholesale licensing scenario these costs are projected to be halved; under the IPO scenarios they are expected to be eliminated.

Administration Expenses:

- Most categories of administration costs remain at their Baseline forecast levels under any privatization scenario other than wholesale privatization. These costs include such overhead items as copier charges, the Director of Administration and Staff, and the Bureau of Support Services. Under wholesale privatization scenarios these costs are expected to be reduced 100 percent.
- Wine Bureau—Under all retail privatization scenarios other than the agency store cases, the Wine Bureau is expected to achieve a cost savings of 50 percent, reflecting the private sector's new role in retail management. In the agency store situations all of the Bureau's functions and budget are retained, and under wholesale privatization scenarios the Wine Bureau budget is assumed to be eliminated entirely.
- Bureau of Personnel—Reflecting the reduction in the workforce under each scenario, but with some consideration for overhead, we estimated an 85 percent reduction under all wine and spirits retail privatization scenarios, a 15 percent reduction in wine-only cases, and a 100 percent reduction in wholesale privatization cases.
- Director of Marketing—The Director's responsibilities include supervision of the Wine, Logistics, Retail Management, and Consumer Relations bureaus, but the majority of his/her responsibilities are expected to remain unless the PLCB exits both the wholesale and retail sides of the business. Price Waterhouse estimated a 25 percent savings under all wine and spirits retail privatization scenarios, a 15 percent reduction under wine-only scenarios, and a 100 percent reduction under the wholesale privatization scenarios. The only exceptions are the agency store cases: no reduction is predicted in the Director of Marketing budget under wine and spirits retail agencies and a 25 percent increase is estimated if only wine is sold by agents.
- Management Information Systems—These costs are assumed to drop by 50 percent if all retail operations are privatized, except in the agency store (wine and spirits) cases where they would not drop at all. For wine-only retail privatization cases they are predicted to fall by 15 percent, except under agency wine-only where they are predicted to rise by 25 percent. There are no costs in the wholesale privatization cases.

Warehouse Contract: The PLCB presently contracts out its warehousing and shipping operations, a practice which is presumed to continue under any retail privatization scenario. However, the value of these contracts is a function of the number of retail outlets, as costs increase with the need to separate goods into bundles and deliver to more locations. Based on discussion with PLCB Bureau of Logistics staff, we estimated the following percentage increases/decreases under each scenario:

Retail Privatization of W&S		Retail Privatization of Wine		Wholesale and Retail Privatiz.
License - Low Control	25%	License - Low Control	50%	Wholesale/Retail Licenses -100%
License - Medium Control	18%	License - High Control	10%	IPO - Retail Licenses -100%
License - High Control	10%	Franchise - Low Markup	10%	IPO - Retail Franchises -100%
License - Price Neutral	0%	Franchise - High Markup	10%	
Franchise - Low	0%	Agency Store System		
		10%		
Franchise - Medium (665)	0%			
Franchise - Medium (1,500)	2%			

<b>Retail Privatization of W&amp;S</b>	<b>Retail Privatization of Wine</b>	<b>Wholesale and Retail Privatiz.</b>
Franchise - High 0%		
Franchise - Price Neutral      0%		
Franchise - Current              0%		
Franchise - Royalty (28.8)      0%		
Franchise - Royalty (40.0)      0%		
Agency Store System (All Commissions)              0%		

### ***Transition Costs***

As with any large scale organizational change, all PLCB privatization options must take into account the costs associated with a transition period. In the Price Waterhouse model, transition costs appear in all scenarios except the Baseline case. These costs are:

- **Sick and Annual Leave Payouts:** The Office of Administration/Employee Relations provided data estimating that all retail (store and field) employees would be laid off at a cost of \$9,941,935 in sick and annual leave payouts. Based on this data, we assumed sick and annual leave payouts of \$9,941,935 for all wine and spirits retail privatizations. For wine-only retail privatizations, we assumed a reduction of 33% in retail personnel and therefore, 33% of \$9,941,925 in payouts. For wholesale privatization scenarios, we assumed a 100% reduction of retail personnel as well as a large portion of Agency personnel, resulting in an additional 12.5% of sick and annual leave payouts (Agency employees are approximately 12.5% of total PLCB staff composite).
- **Unemployment Costs:** The Office of Administration/Employee Relations also provided data estimating \$10,569,800 in unemployment costs for all retail employees. This figure is calculated based on the assumption that 100 percent of laid off employees will earn 16 weeks of unemployment benefits, the average earned by individuals who claim unemployment benefits in Pennsylvania. For all wine and spirits privatization options except the Franchise System - Royalty (28.8%) and Franchise System - Royalty (40%) scenarios we assumed \$10,569,800 as provided; for all wine-only retail privatizations, we used 33% of \$10,569,800; and for wholesale privatization scenarios, \$10,569,800 plus an additional 12.5%. After further discussion on the development of the Franchise System - Royalty (28.8%) and (40%) scenarios, additional input from the Office of Administration indicated that an assumption of 60 percent of laid off employees earning 16 weeks of benefits may be more reasonable and was therefore applied in these two scenarios.
- **Re-employment Tax Credit:** A re-employment tax credit which would provide \$1,000 per year to employers who hire unemployed individuals was incorporated in the development of the Franchise System - Royalty (28.8%) and (40%) scenarios. The Governor's office estimates a cost to the Commonwealth of \$4.2 million in Year 1.
- **Store Expenses:** It is assumed that in the transition year (Year 1) in all privatization scenarios, 25 percent of non-labor store expenses will be incurred as a result of ending leases, dismantling stores, and shutting down the retail system.
- In the wholesale privatization scenarios, where the PLCB is no longer involved in wine and spirits operations, we assume that the PLCB is also able to obtain one-time revenues from the sale of the Philadelphia warehouse and general inventory. We received data on the current market value of the warehouse and the inventory from the PLCB Comptroller's Office. After subtracting out corresponding liabilities for its value, the inventory was discounted by 15% to arrive at actual



revenue that could be obtained from a large scale inventory sale. In the two Franchise System - Royalty cases, we also included funds obtained from the sale of inventory only.

### ***Elasticities of Demand***

#### ***Price Elasticity of Demand***

The term "price elasticity of demand" is used to describe the ratio of the percentage change in the amount of a product consumed due to a given percentage change in the price of the product. For example, if the price of a product rises by 10 percent and the resulting demand for that product decreases by 10 percent, then the price elasticity of demand is equal to the ratio of the change in demand to change in price, or negative one. Conventionally, demand for a product is considered "elastic" if it has a price elasticity less than negative one and "inelastic" if it has a price elasticity between zero and negative one.

The price elasticity of demand for spirits and wine is important to our financial analysis, because privatization may have an effect on average prices of those goods. These price changes will affect sales, which will, in turn, affect revenues and the bottom line. Unfortunately, there is no consensus on what the "correct" elasticities are. Various economists have tried a variety of methodologies, but no study is immune from criticism over issues of inter-beverage substitution, cross-border sales, policy variables, availability, demographics, or other non-price factors which have their own effects on sales. As evidenced in the table below, estimates range from as significant as -1.97 for spirits to as small as -0.05 for wine.

Author	Study	Wine	Spirits
Omstein (1980)	Cite:		
Lomanor/Wilson	USA, 1947-1964	(.68)	(.25)
Walsh/Walsh	Ireland, 1953-1967		(.64)
Lau	Canada, 1949-1969	(1.65)	(1.45)
Johnson/Oksanen	Canada, 1955-1971	(.67)	(1.14)
Labys	USA, 1954-1971	(1.65)	
Simon	USA, 1955-1961		(.79)
Wales	USA, 1960		(.084)
Smith	USA, 1970		(1.95)
Lidman	California, 1953-1975		.02
Barsby/Marshall	USA, 1970-1975		(1.06)
Levy/Sheflin (1983)	Cite:		
Grabowski	USA, 1956-1972—covered total alcohol sales	(.39)	(.39)
Pogue/Sgontz (1988)	Cite:		
Nelson	USA: (Only have results)	(.7)	(.7)
Selvanthan (1991)	USA, 1949-1982	(.05)	(.10)
Selvan./Clements	USA, 1949-1982	(.22)	(.10)
Omstein/Hanssens (1985)	All states License states		(.9) (.61)-(91)
Fisher/Cook (1995)	USA: (Only have results)	(.56)	(1.97)
CSIP (1990)	Survey of previous results	(.35)	(.35)
OMB/Treasury	USA: (Only have results)	(.35)	(.79)
Philip Cook	USA: (Only have results)		(1.0)
Averages		(.67)	(.76)

For the purposes of the Price Waterhouse model, we selected average elasticities for wine and spirits from the several studies noted in the table: -0.67 for wine and -0.76 for spirits.

Nevertheless, because of the range of estimates in the literature, we analyzed the sensitivity of the results to variations in the price elasticity assumption. Elasticities were varied by 33 percent in either direction, creating a range of wine price elasticities from -0.45 to -0.89 and a range of spirits price elasticities from -0.51 to -1.01. As evidenced in the table below, doing so had little effect on the outcome of our analysis in terms of the ten-year sum of transfers to the Commonwealth government, although scenarios with greater price changes are affected more.

Scenario	% Initial Price Change from Baseline	10-Year Revenues (millions) Average Elasticity	10-Year Revenues (millions) High Elasticity	10-Year Revenues (millions) Low Elasticity
<b>Retail Privatization of Wine and Spirits</b>				
Wholesale and Retail Licenses	4.19 w, 9.09 sp	\$1,857	\$1,830	\$1,884
IPO with Retail Licenses	4.19 w, 9.09 sp	\$2,276	\$2,237	\$2,315
IPO with Retail Franchises	6.75 w, 10.90 sp	\$2,208	\$2,157	\$2,258
<b>Retail Privatization of Wine and Spirits</b>				
License System - Low Control	-2.89 w, 6.87 sp	\$3,100	\$3,060	\$3,139
License System - Medium Control	-0.50 w 9.50 sp	\$3,016	\$2,956	\$3,077
License System - High Control	1.89 w 9.50 sp	\$2,906	\$2,840	\$2,972
License System - Price Neutral	-0.50 w 0.11 sp	\$2,739	\$2,727	\$2,751
Franchise System - Low Markup	-15.39 w -6.89 sp	\$2,218	\$2,262	\$2,174
Franchise System - Medium Markup (665)	-7.55 w 1.74 sp	\$2,745	\$2,746	\$2,744
Franchise System - Medium Markup (1,500)	-7.55 w 1.74 sp	\$2,729	\$2,730	\$2,728
Franchise System - High Markup	-0.50 w 9.50 sp	\$3,151	\$3,091	\$3,212
Franchise System - Price Neutral	-0.50 w 0.11 sp	\$2,910	\$2,897	\$2,923
Franchise System - Current Markup	23.35 w 23.01 sp	\$4,032	\$3,730	\$4,334
Franchise System - Royalty (28.8)	-2.07 w -1.52 sp	\$3,074	\$3,074	\$3,074
Franchise System - Royalty (40.0)	-2.07 w -1.52 sp	\$3,151	\$3,151	\$3,152
Agency Store System - Low Commission	0 w 0 sp	\$3,618	\$3,618	\$3,618
Agency Store System - Medium Commission	0 w 0 sp	\$3,261	\$3,261	\$3,261
Agency Store System - High Commission	0 w 0 sp	\$2,418	\$2,418	\$2,418
<b>Retail Privatization of Wine Only</b>				



Scenario	% Initial Price Change from Baseline	10-Year Revenues (millions) Average Elasticity	10-Year Revenues (millions) High Elasticity	10-Year Revenues (millions) Low Elasticity
License System - Low Control	-2.89 w 0 sp	\$2,210	\$2,210	\$2,209
License System - High Control	1.89 w 0 sp	\$2,250	\$2,235	\$2,266
Franchise System - Low Markup	-15.39 w 0 sp	\$1,893	\$1,919	\$1,867
Franchise System - High Markup	-0.50 w 0 sp	\$2,352	\$2,344	\$2,359
Agency Store System	0 w 0 sp	\$2,617	\$2,617	\$2,617

#### *Availability Elasticity of Demand*

Just as sales volume may be affected by price, it may also be affected by availability. Availability of wine and spirits may increase to a greater or lesser degree in various privatization scenarios depending on the number of retail outlets created. As mentioned earlier in the report, our model accounts for an indirect impact of availability on sales. We assume that an increase in number of retail outlets will result in higher competition and therefore lower markups. This will reduce the average price and increase the total sales levels.

However, the direct impact of availability on sales volume is much less straightforward to measure. The number of outlets where wine and spirits can be purchased is not the only aspect of availability; there is also the question of the type of outlets (e.g. can wine and spirits be purchased in supermarkets, drugstores, and other retail establishment, or must they be purchased at specialty liquor package stores). Taking the type of outlets into account requires using a "transaction cost" approach to availability.

Transaction costs are the financial and non-financial costs associated with the purchase of a service or good that are not paid in compensation for the service or good itself. For example, in purchasing wine and spirits, consumers not only pay the price of their purchases, they also spend time and pay money for transportation to and from the store. If such transaction costs are high in certain environments, all else being equal, demand for wine and spirits will be lower than it would be otherwise. Privatization, by changing the institutional structure of the wine and spirits industries in Pennsylvania, may have an impact on transaction costs and hence on demand. Increasing the number of outlets where wine and spirits are sold or allowing them to be sold by supermarkets reduces transaction costs by reducing traveling distance to the nearest outlet and allowing consumers to consolidate the number of trips required to make their desired purchases.

As with the literature on price elasticity, the literature on availability elasticity offers no clear consensus. Most studies that have addressed the issue directly have failed to identify significant impacts of availability on sales. These include a study of the introduction of wine into grocery stores in Quebec performed by Adrian, Ferguson, and Her (*Journal of Studies on Alcohol*, 1996) and a study of the privatization of wine sales in Iowa by Mulford, Ledolter, and Fitzgerald (*Journal of Studies on Alcohol*, 1992). Other studies find significant effects but their models tend to be characterized by bad fits to the data and implausible price elasticities (Gruenewald, et al., *Alcoholism: Clinical and Experimental Research*, 1993) or poor specification and data problems (Wagenaar and Holder, *Journal of Studies on Alcohol*, March 1991).

Several other studies have found relatively small availability elasticities. For example, Nelson (*Journal of Regulatory Economics*, 1990) estimated an availability elasticity of 0.041 for spirits and 0.058 for wine; Hoadley, Fuchs, and Holder (*American Journal of Drug and Alcohol Abuse*, 1984) estimated 0.027. In both cases, the authors used total number of on and off-premise retail outlets as their explanatory variables, so, for example, Nelson expects a 4.1% increase in spirits sales to result from a 100% increase in the total number of on and off premise outlets. Hoadley, Fuchs, and Holder find no impact on sales from restricting wine and spirits sales in different types of retail outlets.

These findings are consistent with the idea of a "mature" market in wine and spirits. Over an extended period of time with no changes to the availability of a product, consumers will tend to behave in ways which minimize transaction costs: they will buy spirits and wine from outlets they pass on their way home from work, make fewer trips to the store but purchase more each time, and engage in other transaction cost-reducing behaviors without reducing purchases. If this holds true in Pennsylvania, then an increase in the number of retail outlets may have very little non-price related impact on sales. For the purpose of our analysis, we assumed that this is the case and that the direct measure of availability elasticity of demand is equal to zero.

However, to test the sensitivity of the model in this respect, we assumed an availability elasticity of 0.10, a high value compared to the industry research. At 0.10, for every increase of 100% in the number of on- and off-premise licensees expected, there is an increase in unit sales of 10%. Presently there are approximately 16,400 on-premise licensees for wine and spirits in the state of Pennsylvania, in addition to 665 state stores, for a total of 17,065 licensees. Under the most extreme scenario, the number of off-premise wine outlets increases to 6,880 and the number of spirits outlets stays the same; the total number of on- and off-premise wine outlets thus increases to 23,280, a 36% rise. Given an elasticity of 0.10, this would result in an increase in wine sales of only 3.6% in the most extreme case. The table below shows the impact on the predicted total revenues to the Commonwealth government for each scenario of assuming an availability elasticity of 0.10. At the maximum, including this availability elasticity changes the financial results by slightly more than 1 percent.

Option	% Change in Number of Retail Outlets	10 Yr Revenues (millions): Elasticity of Availability = 0	10 Yr Revenues (millions): Elasticity of Availability = 0.10
<b>Wholesale and Retail Privatization</b>			
Wholesale and Retail Licenses	15.2% w 15.2% sp	\$1,857	\$1,880
IPO with Retail Licenses	15.2% w 15.2% sp	\$2,276	\$2,309
IPO with Retail Franchises	0% w 0% sp	\$2,208	\$2,208
<b>Retail Privatization of Wine and Spirits</b>			
License System - Low Control	15.2% w 15.2% sp	\$3,100	\$3,134
License System - Medium Control	9.0% w 9.0% sp	\$3,016	\$3,029
License System - High Control	3.1% w 3.1% sp	\$2,906	\$2,923
License System - Price Neutral	0% w 0% sp	\$2,739	\$2,739
Franchise System - Low Markup	0% w 0% sp	\$2,218	\$2,218
Franchise System - Medium Markup	0% w	\$2,745	\$2,745

**Privatization Analysis of the  
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Option	% Change in Number of Retail Outlets	10 Yr Revenues (millions): Elasticity of Availability = 0	10 Yr Revenues (millions): Elasticity of Availability = 0.10
(665)	0% sp		
Franchise System - Medium Markup (1,500)	4.9% w 4.9% sp	\$2,729	\$2,746
Franchise System - High Markup	0% w 0% sp	\$3,151	\$3,151
Franchise System - Price Neutral	0% w 0% sp	\$2,910	\$2,910
Franchise System - Current Markup	0% w 0% sp	\$4,032	\$4,032
Franchise System - Royalty (28.8)	0.5% w 0.5% sp	\$3,074	\$3,074
Franchise System - Royalty (40.0)	0.5% w 0.5% sp	\$3,151	\$3,151
Agency Store System - Low Commission	0% w 0% sp	\$3,618	\$3,618
Agency Store System - Medium Commission	0% w 0% sp	\$3,261	\$3,261
Agency Store System - High Commission	0% w 0% sp	\$2,417	\$2,417
<b>Retail Privatization of Wine Only</b>			
License System - Low Control	36.4% w 0% sp	\$2,210	\$2,213
License System - High Control	3.1% w 0% sp	\$2,250	\$2,262
Franchise System - Low Markup	0% w 0% sp	\$1,893	\$1,893
Franchise System - High Markup	0% w 0% sp	\$2,352	\$2,352
Agency Store System	0% w 0% sp	\$2,617	\$2,617









## **Appendix II: Model Results**

This appendix offers a more detailed financial picture of each of the scenarios which Price Waterhouse has considered. For most of the privatization scenarios there are three sheets: a descriptive overview, a PLCB Summary sheet, and a State Transfers sheet. The first includes major operating and financial characteristics with respect to markups, tax rates, and number of outlets, as well as a comparison of the scenario's projected cash flows to the Baseline projections. The second shows PLCB revenues and expenses in aggregated categories and calculates projected annual cash flows for the PLCB over the first ten years of privatization. This sheet is not included for the wholesale privatization scenarios, as in these cases the PLCB's operations are reduced to a few licensing and administration functions—the net costs of these operations show up as a transfer of liability to the Commonwealth on the third sheet. The third sheet shows the total annual financial impact of each scenario on the Commonwealth government and on Pennsylvania municipalities, including general PLCB transfers, enforcement and other dedicated transfers, tax revenues, shifted costs, regulatory costs, license fees to municipalities, and IPO proceeds.

In addition, for the convenience of the reader, three summary tables have been included in Appendix II which compare the various options in terms of revenues to the Commonwealth government, build-up to final retail prices, and annual unit sales.

## Privatization Options for the Pennsylvania Liquor Control Board

	Privatization of Wine and Spirits	Privatization of Wine Only
<b>Baseline Scenario (No Privatization)</b>		
<b>Wholesale/Retail Privatization Scenarios</b>		
Wholesale/Retail Licensing	X	
Initial Public Offering (IPO) with Retail Licensing	X	
Initial Public Offering (IPO) with Retail Franchising	X	
<b>Retail Privatization Scenarios</b>		
License System - Low Control	X	X
License System - Medium Control	X	
License System - High Control	X	X
License System - Price Neutral	X	
Franchise System - Low Markup	X	X
Franchise System - Medium Markup (665)	X	
Franchise System - Medium Markup (1,500)	X	X
Franchise System - High Markup	X	
Franchise System - Price Neutral	X	
Franchise System - Current Markups	X	
Franchise System - Royalty (28.8)	X	
Franchise System - Royalty (40.0)	X	
Agency System - Low Commission	X	X
Agency System - Medium Commission	X	
Agency System - High Commission	X	



# Privatization Analysis of the Pennsylvania Wine and Spirits Industry

**Comparisons of Revenues to Commonwealth Government (\$millions) - Privatization Cases vs. Baseline**

Scenario	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	10 Year Total
Baseline	\$240.02	\$241.44	\$243.16	\$245.17	\$247.18	\$249.61	\$252.51	\$255.94	\$259.98	\$264.69	\$2,499.71
Wholesale/Retail Licensing	\$203.38	\$179.27	\$179.88	\$180.67	\$181.67	\$182.89	\$184.36	\$188.10	\$188.15	\$190.53	\$1,856.90
<i>Difference from Baseline</i>	<i>(\$36.65)</i>	<i>(\$62.17)</i>	<i>(\$63.28)</i>	<i>(\$64.50)</i>	<i>(\$65.51)</i>	<i>(\$66.72)</i>	<i>(\$68.15)</i>	<i>(\$69.84)</i>	<i>(\$71.83)</i>	<i>(\$74.16)</i>	<i>(\$642.80)</i>
IPO with Retail Licensing	\$832.52	\$159.23	\$159.24	\$159.34	\$159.57	\$159.92	\$180.41	\$181.05	\$181.88	\$162.85	\$2,276.00
<i>Difference from Baseline</i>	<i>\$592.50</i>	<i>(\$82.21)</i>	<i>(\$83.93)</i>	<i>(\$85.83)</i>	<i>(\$87.61)</i>	<i>(\$89.69)</i>	<i>(\$92.10)</i>	<i>(\$94.89)</i>	<i>(\$98.12)</i>	<i>(\$101.84)</i>	<i>(\$223.71)</i>
IPO with Retail Franchising	\$791.25	\$156.25	\$158.25	\$156.36	\$156.58	\$156.92	\$157.40	\$158.03	\$158.81	\$159.78	\$2,207.62
<i>Difference from Baseline</i>	<i>\$551.23</i>	<i>(\$85.19)</i>	<i>(\$86.91)</i>	<i>(\$88.82)</i>	<i>(\$90.60)</i>	<i>(\$92.69)</i>	<i>(\$95.11)</i>	<i>(\$97.92)</i>	<i>(\$101.16)</i>	<i>(\$104.91)</i>	<i>(\$292.08)</i>
License System - Low Control	\$252.38	\$288.66	\$294.62	\$300.98	\$307.45	\$314.47	\$322.09	\$330.39	\$339.42	\$349.27	\$3,099.72
<i>Difference from Baseline</i>	<i>\$12.36</i>	<i>\$47.22</i>	<i>\$51.45</i>	<i>\$55.80</i>	<i>\$60.27</i>	<i>\$64.86</i>	<i>\$69.58</i>	<i>\$74.44</i>	<i>\$79.44</i>	<i>\$84.59</i>	<i>\$600.02</i>
License System - Medium Control	\$244.45	\$280.65	\$286.53	\$292.80	\$299.19	\$306.11	\$313.62	\$321.80	\$330.71	\$340.43	\$3,018.29
<i>Difference from Baseline</i>	<i>\$4.43</i>	<i>\$39.21</i>	<i>\$43.37</i>	<i>\$47.63</i>	<i>\$52.01</i>	<i>\$56.50</i>	<i>\$61.11</i>	<i>\$65.86</i>	<i>\$70.73</i>	<i>\$75.74</i>	<i>\$516.59</i>
License System - High Control	\$233.63	\$269.80	\$275.64	\$281.87	\$288.20	\$295.07	\$302.53	\$310.64	\$319.48	\$329.12	\$2,905.99
<i>Difference from Baseline</i>	<i>(\$6.39)</i>	<i>\$28.36</i>	<i>\$32.48</i>	<i>\$36.70</i>	<i>\$41.02</i>	<i>\$45.46</i>	<i>\$50.02</i>	<i>\$54.70</i>	<i>\$59.50</i>	<i>\$64.44</i>	<i>\$406.28</i>
License System - Price Neutral	\$216.88	\$253.07	\$258.93	\$265.17	\$271.52	\$278.39	\$285.85	\$293.98	\$302.79	\$312.43	\$2,739.00
<i>Difference from Baseline</i>	<i>(\$23.14)</i>	<i>\$11.63</i>	<i>\$15.76</i>	<i>\$20.00</i>	<i>\$24.34</i>	<i>\$28.79</i>	<i>\$33.34</i>	<i>\$38.02</i>	<i>\$42.82</i>	<i>\$47.74</i>	<i>\$239.30</i>
Franchise System - Low Markup	\$350.42	\$186.87	\$191.36	\$196.14	\$200.91	\$206.08	\$211.71	\$217.83	\$224.51	\$231.81	\$2,217.64
<i>Difference from Baseline</i>	<i>\$110.39</i>	<i>(\$64.57)</i>	<i>(\$51.80)</i>	<i>(\$49.03)</i>	<i>(\$46.27)</i>	<i>(\$43.53)</i>	<i>(\$40.80)</i>	<i>(\$38.11)</i>	<i>(\$35.47)</i>	<i>(\$32.88)</i>	<i>(\$282.07)</i>

## Appendix II

Financial projections subject to the provisions  
contained in the inside cover page of this report.

# Privatization Analysis of the Pennsylvania Wine and Spirits Industry

**Comparisons of Revenues to Commonwealth Government (\$millions) - Privatization Cases vs. Baseline (cont'd)**

Scenario	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	10 Year Total
Baseline	\$240.02	\$241.44	\$243.16	\$245.17	\$247.18	\$249.61	\$252.51	\$255.94	\$259.98	\$264.69	\$2,499.71
Franchise System - Medium Markup (665) <i>Difference from Baseline</i>	\$398.88 \$158.86	\$236.11 (\$5.33)	\$241.44 (\$1.73)	\$247.11 \$1.94	\$252.84 \$5.66	\$259.05 \$9.45	\$265.80 \$13.29	\$273.14 \$17.19	\$281.13 \$21.16	\$289.86 \$25.17	\$2,745.36 \$245.66
Franchise System - Medium Markup (1,500) <i>Difference from Baseline</i>	\$397.39 \$157.37	\$234.59 (\$6.85)	\$239.88 (\$3.29)	\$245.51 \$0.34	\$251.21 \$4.03	\$257.39 \$7.78	\$264.10 \$11.59	\$271.40 \$15.45	\$279.35 \$19.37	\$288.04 \$23.35	\$2,728.84 \$229.14
Franchise System - High Markup <i>Difference from Baseline</i>	\$436.32 \$196.30	\$274.12 \$32.68	\$280.05 \$36.89	\$286.38 \$41.21	\$292.83 \$45.65	\$299.81 \$50.20	\$307.38 \$54.87	\$315.62 \$59.68	\$324.59 \$64.62	\$334.38 \$69.70	\$3,151.49 \$651.78
Franchise System - Price Neutral <i>Difference from Baseline</i>	\$412.65 \$172.63	\$250.38 \$8.94	\$256.24 \$13.07	\$262.48 \$17.30	\$268.82 \$21.64	\$275.69 \$26.08	\$283.14 \$30.63	\$291.25 \$35.30	\$300.07 \$40.10	\$309.70 \$45.02	\$2,910.42 \$410.72
Franchise System - Current Markup <i>Difference from Baseline</i>	\$516.16 \$276.14	\$355.43 \$113.99	\$362.94 \$119.78	\$370.97 \$125.80	\$379.24 \$132.06	\$388.21 \$138.60	\$397.94 \$145.43	\$408.51 \$152.57	\$420.03 \$160.05	\$432.59 \$167.90	\$4,032.02 \$1,532.32
Franchise System - Royalty (28.8) <i>Difference from Baseline</i>	\$475.11 \$235.09	\$260.57 \$19.13	\$266.64 \$23.47	\$273.11 \$27.94	\$279.70 \$32.52	\$286.83 \$37.23	\$294.58 \$42.06	\$302.99 \$47.04	\$312.14 \$52.17	\$322.13 \$57.44	\$3,073.79 \$574.09
Franchise System - Royalty (40.0) <i>Difference from Baseline</i>	\$552.29 \$312.27	\$260.57 \$19.13	\$266.64 \$23.47	\$273.11 \$27.94	\$279.70 \$32.52	\$286.83 \$37.23	\$294.58 \$42.06	\$302.99 \$47.04	\$312.14 \$52.17	\$322.13 \$57.44	\$3,150.97 \$651.27
Agency Store System - Low Commission <i>Difference from Baseline</i>	\$308.97 \$68.95	\$344.30 \$102.86	\$349.26 \$106.10	\$354.59 \$109.41	\$359.99 \$112.81	\$365.90 \$116.29	\$372.35 \$119.84	\$379.41 \$123.47	\$387.15 \$127.17	\$395.62 \$130.94	\$3,617.54 \$1,117.84

## Appendix II

Financial projections subject to the provisions  
contained in the inside cover page of this report.

Privatization Analysis of the  
Pennsylvania Wine and Spirits Industry

**Comparisons of Revenues to Commonwealth Government (\$millions) - Privatization Cases vs. Baseline (cont'd)**

Scenario	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	10 Year Total
Baseline	\$240.02	\$241.44	\$243.16	\$245.17	\$247.18	\$249.61	\$252.51	\$255.94	\$259.98	\$264.69	\$2,499.71
Agency Store System - Medium Commission	\$278.11	\$310.93	\$315.35	\$320.09	\$324.88	\$330.11	\$335.84	\$342.13	\$349.02	\$358.58	\$3,281.05
Difference from Baseline	\$36.09	\$69.49	\$72.19	\$74.92	\$77.70	\$80.50	\$83.33	\$86.18	\$89.04	\$91.90	\$761.34
Agency Store System - High Commission	\$198.14	\$231.80	\$234.97	\$238.38	\$241.73	\$245.43	\$249.52	\$254.03	\$259.01	\$284.52	\$2,417.53
Difference from Baseline	(\$41.88)	(\$9.64)	(\$8.19)	(\$6.79)	(\$5.45)	(\$4.18)	(\$2.99)	(\$1.92)	(\$0.96)	(\$0.17)	(\$82.17)
Wine Only, License System - Low Control	\$204.04	\$212.43	\$214.33	\$216.52	\$218.72	\$221.35	\$224.48	\$228.11	\$232.37	\$237.32	\$2,209.83
Difference from Baseline	(\$36.98)	(\$29.01)	(\$28.83)	(\$28.65)	(\$28.46)	(\$28.26)	(\$28.06)	(\$27.84)	(\$27.61)	(\$27.37)	(\$290.07)
Wine Only, License System - High Control	\$208.19	\$216.58	\$218.47	\$220.66	\$222.84	\$225.44	\$228.53	\$232.14	\$236.36	\$241.28	\$2,250.47
Difference from Baseline	(\$31.83)	(\$24.86)	(\$24.69)	(\$24.52)	(\$24.34)	(\$24.16)	(\$23.99)	(\$23.80)	(\$23.62)	(\$23.43)	(\$249.23)
Wine Only, Franchise System - Low Markup	\$254.42	\$179.19	\$179.53	\$180.05	\$180.44	\$181.13	\$182.14	\$183.52	\$185.31	\$187.58	\$1,893.29
Difference from Baseline	\$14.39	(\$62.25)	(\$63.63)	(\$66.13)	(\$66.74)	(\$68.48)	(\$70.37)	(\$72.43)	(\$74.67)	(\$77.11)	(\$606.41)
Wine Only, Franchise System - High Markup	\$291.89	\$218.18	\$220.15	\$222.40	\$224.66	\$227.35	\$230.52	\$234.24	\$238.56	\$243.56	\$2,351.52
Difference from Baseline	\$61.87	(\$23.26)	(\$23.02)	(\$22.77)	(\$22.62)	(\$22.26)	(\$21.99)	(\$21.71)	(\$21.42)	(\$21.12)	(\$148.19)
Wine Only, Agency Store System	\$245.85	\$254.18	\$255.94	\$257.94	\$259.90	\$262.23	\$264.97	\$268.18	\$271.91	\$276.23	\$2,617.35
Difference from Baseline	\$5.83	\$12.74	\$12.77	\$12.77	\$12.72	\$12.62	\$12.46	\$12.24	\$11.93	\$11.55	\$117.64

**Appendix II**

Financial projections subject to the provisions  
contained in the inside cover page of this report.

**Comparisons of Effects on Sales (000's of Units) - Wholesale Privatization Cases**

Scenario	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<i>Baseline</i>										
Wine	37,998	38,315	38,645	38,992	39,356	39,739	40,144	40,573	41,029	41,514
Spirits	43,636	42,741	41,865	41,007	40,166	39,343	38,536	37,746	36,972	36,214
<i>Wholesale/Retail Licensing</i>										
Wine	36,909	37,236	37,573	37,926	38,296	38,684	39,093	39,526	39,984	40,471
Spirits	40,623	39,855	39,102	38,361	37,634	36,919	36,217	35,528	34,851	34,186
<i>IPO with Retail Licensing</i>										
Wine	36,909	37,236	37,573	37,926	38,296	38,684	39,093	39,526	39,984	40,471
Spirits	40,623	39,855	39,102	38,361	37,634	36,919	36,217	35,528	34,851	34,186
<i>IPO with Retail Franchising</i>										
Wine	36,258	36,581	36,913	37,261	37,624	38,007	38,410	38,836	39,287	39,767
Spirits	40,020	39,266	38,525	37,798	37,083	36,380	35,691	35,013	34,347	33,693



**Privatization Analysis of the  
Pennsylvania Wine and Spirits Industry**

**Comparisons of Effects on Sales (000's of Units) - Wine and Spirits Retail Privatization Cases**

Scenario	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>Baseline</b>										
Wine	37,998	38,315	38,645	38,992	39,356	39,739	40,144	40,573	41,029	41,514
Spirits	43,636	42,741	41,865	41,007	40,166	39,343	38,536	37,746	36,972	36,214
<b>License System - Low Control</b>										
Wine	38,695	38,867	39,050	39,248	39,463	39,696	39,951	40,229	40,532	40,864
Spirits	41,358	40,418	39,501	38,605	37,730	36,876	36,043	35,229	34,434	33,659
<b>License System - Medium Control</b>										
Wine	38,085	38,248	38,422	38,610	38,815	39,039	39,283	39,550	39,842	40,161
Spirits	40,487	39,562	38,660	37,779	36,920	36,080	35,261	34,462	33,681	32,919
<b>License System - High Control</b>										
Wine	37,485	37,641	37,806	37,987	38,184	38,399	38,634	38,892	39,174	39,485
Spirits	40,487	39,562	38,660	37,779	36,920	36,080	35,261	34,462	33,681	32,919
<b>License System - Price Neutral</b>										
Wine	38,123	38,291	38,468	38,662	38,872	39,102	39,352	39,626	39,926	40,254
Spirits	43,600	42,620	41,663	40,728	39,815	38,924	38,053	37,203	36,372	35,561
<b>Franchise System - Low Markups</b>										
Wine	41,888	42,107	42,338	42,585	42,852	43,139	43,449	43,784	44,147	44,542
Spirits	45,919	44,898	43,900	42,925	41,972	41,042	40,133	39,245	38,377	37,530

**Comparisons of Effects on Sales (000's of Units) - Wine and Spirits Retail Privatization Cases (cont'd)**

Scenario	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<i>Baseline</i>										
Wine	37,998	38,315	38,645	38,992	39,356	39,739	40,144	40,573	41,029	41,514
Spirits	43,636	42,741	41,865	41,007	40,166	39,343	38,536	37,746	36,972	36,214
<i>Franchise System - Medium Markups (665)</i>										
Wine	39,886	40,076	40,277	40,493	40,727	40,981	41,256	41,555	41,881	42,236
Spirits	43,060	42,090	41,142	40,217	39,313	38,431	37,569	36,727	35,905	35,103
<i>Franchise System - Medium Markup (1,500)</i>										
Wine	39,886	40,076	40,277	40,493	40,727	40,981	41,256	41,555	41,881	42,236
Spirits	43,060	42,090	41,142	40,217	39,313	38,431	37,569	36,727	35,905	35,103
<i>Franchise System - High Markups</i>										
Wine	38,085	38,248	38,422	38,610	38,815	39,039	39,283	39,550	39,842	40,161
Spirits	40,487	39,562	38,660	37,779	36,920	36,080	35,261	34,462	33,681	32,919
<i>Franchise System - Price Neutral</i>										
Wine	38,123	38,291	38,468	38,662	38,872	39,102	39,352	39,626	39,926	40,254
Spirits	43,600	42,620	41,663	40,728	39,815	38,924	38,053	37,203	36,372	35,561
<i>Franchise System - Current Markups</i>										
Wine	32,044	32,124	32,211	32,311	32,426	32,556	32,703	32,870	33,057	33,269
Spirits	36,003	35,159	34,336	33,533	32,750	31,986	31,241	30,514	29,805	29,114

**Privatization Analysis of the  
Pennsylvania Wine and Spirits Industry**

**Comparisons of Effects on Sales (000's of Units) - Wine and Spirits Retail Privatization Cases (cont'd)**

Scenario	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>Baseline</b>										
Wine	37,998	38,315	38,645	38,992	39,356	39,739	40,144	40,573	41,029	41,514
Spirits	43,636	42,741	41,865	41,007	40,166	39,343	38,536	37,746	36,972	36,214
<b>Franchise System - Royalty (28.8)</b>										
Wine	38,523	38,696	38,880	39,080	39,296	39,532	39,790	40,071	40,378	40,714
Spirits	44,140	43,150	42,183	41,239	40,317	39,417	38,537	37,678	36,839	36,019
<b>Franchise System - Royalty (40.0)</b>										
Wine	38,523	38,696	38,880	39,080	39,296	39,532	39,790	40,071	40,378	40,714
Spirits	44,140	43,150	42,183	41,239	40,317	39,417	38,537	37,678	36,839	36,019
<b>Agency Store - Low Commission</b>										
Wine	37,998	38,315	38,645	38,992	39,356	39,739	40,144	40,573	41,029	41,514
Spirits	43,636	42,741	41,865	41,007	40,166	39,343	38,536	37,746	36,972	36,214
<b>Agency Store - Medium Commission</b>										
Wine	37,998	38,315	38,645	38,992	39,356	39,739	40,144	40,573	41,029	41,514
Spirits	43,636	42,741	41,865	41,007	40,166	39,343	38,536	37,746	36,972	36,214
<b>Agency Store - High Commission</b>										
Wine	37,998	38,315	38,645	38,992	39,356	39,739	40,144	40,573	41,029	41,514
Spirits	43,636	42,741	41,865	41,007	40,166	39,343	38,536	37,746	36,972	36,214

**Privatization Analysis of the  
Pennsylvania Wine and Spirits Industry**

**Comparisons of Effects on Sales (000's of Units) - Retail Privatization Cases, Wine Only**

Scenario	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>Baseline</b>										
Wine	37,998	38,315	38,645	38,992	39,356	39,739	40,144	40,573	41,029	41,514
Spirits	43,636	42,741	41,865	41,007	40,166	39,343	38,536	37,746	36,972	36,214
<b>License System - Low Control</b>										
Wine	38,723	38,899	39,087	39,290	39,511	39,751	40,013	40,299	40,612	40,954
Spirits	43,636	42,741	41,865	41,007	40,166	39,343	38,536	37,746	36,972	36,214
<b>License System - High Control</b>										
Wine	37,524	37,685	37,856	38,043	38,247	38,471	38,715	38,983	39,277	39,600
Spirits	43,636	42,741	41,865	41,007	40,166	39,343	38,536	37,746	36,972	36,214
<b>Franchise System - Low Markups</b>										
Wine	41,859	42,077	42,306	42,552	42,816	43,101	43,409	43,742	44,103	44,496
Spirits	43,636	42,741	41,865	41,007	40,166	39,343	38,536	37,746	36,972	36,214
<b>Franchise System - High Markups</b>										
Wine	38,124	38,292	38,472	38,667	38,879	39,111	39,364	39,641	39,945	40,277
Spirits	43,636	42,741	41,865	41,007	40,166	39,343	38,536	37,746	36,972	36,214
<b>Agency Store System</b>										
Wine	37,998	38,315	38,645	38,992	39,356	39,739	40,144	40,573	41,029	41,514
Spirits	43,636	42,741	41,865	41,007	40,166	39,343	38,536	37,746	36,972	36,214



**Build-Up of Retail Prices Before Local Sales Taxes (Wholesale Privatization Cases)**

Scenario	COGS	PLCB Markup	OCC	Liquor Tax	Sales Tax
Baseline					
Wine	(X)	30%	\$1.10 (avg)	18%	6%
Spirits	(X)	30%	\$1.10 (avg)	18%	6%
Wholesale/Retail					
Licensing	COGS	Wholesale Ta	Whole Marku	Retail Markup	Sales Tax
Wine	(X)	\$3.25/g	27%	22%	6%
Spirits	(X)	\$6.75/g	24%	20%	6%
iPO with Retail					
Licensing	COGS	Wholesale Ta	Whole Marku	Retail Markup	Sales Tax
Wine	(X)	\$3.25/g	27%	22%	6%
Spirits	(X)	\$6.75/g	24%	20%	6%
iPO with Retail					
Franchising	COGS	Wholesale Ta	Whole Marku	Retail Markup	Sales Tax
Wine	(X)	\$3.25/g	27%	25%	6%
Spirits	(X)	\$6.75/g	24%	22%	6%

**Appendix II**

Financial projections subject to the provisions  
contained in the inside cover page of this report.

**Build-Up of Retail Prices Before Local Sales Taxes (Retail Privatization Cases, Wine and Spirits)**

Scenario	COGS	PLCB Markup	OCC	Flood Tax	Sales Tax
<i>Baseline</i>					
Wine	(X)	30%	\$1.10 (avg)	18%	6%
Spirits	(X)	30%	\$1.10 (avg)	18%	6%
<i>License System -</i>					
Low Control					
Wine	(X)	27%	18%	22%	6%
Spirits	(X)	27%	18%	22%	6%
<i>License System -</i>					
Medium Control					
Wine	(X)	27%	18%	25%	6%
Spirits	(X)	27%	18%	25%	6%
<i>License System -</i>					
High Control					
Wine	(X)	27%	18%	28%	6%
Spirits	(X)	25%	18%	27%	6%
<i>License System -</i>					
High Control, Price Neutr					
Wine	(X)	25%	18%	27%	6%
Spirits	(X)	18%	18%	23%	6%
<i>Franchise System -</i>					
Low Wholesale Markups					
Wine	(X)	8%	18%	25%	6%
Spirits	(X)	8%	18%	25%	6%
<i>Franchise System -</i>					
Medium Markups (665)					
Wine	(X)	18%	18%	25%	6%
Spirits	(X)	18%	18%	25%	6%

**Appendix II**

Financial projections subject to the provisions  
contained in the inside cover page of this report.

**Build-Up of Retail Prices Before Local Sales Taxes (Retail Privatization Cases, Wine and Spirits)**

Scenario	COGS	PLCB Markup	OCC	Flood Tax	Sales Tax
<b>Baseline</b>					
Wine	(X)	30%	\$1.10 (avg)	18%	6%
Spirits	(X)	30%	\$1.10 (avg)	18%	6%
<b>Franchise System - Medium Markups (1,500)</b>					
Wine	(X)	18%	18%	25%	6%
Spirits	(X)	18%	18%	25%	6%
<b>Franchise System - High Markups</b>					
Wine	(X)	27%	18%	25%	6%
Spirits	(X)	27%	18%	25%	6%
<b>Franchise System - Price Neutral</b>					
Wine	(X)	25%	18%	27%	6%
Spirits	(X)	18%	18%	23%	6%
<b>Franchise System - Current Markups</b>					
Wine	(X)	60%	18%	23%	6%
Spirits	(X)	45%	18%	23%	6%
<b>Franchise System - Royalty (28.8)</b>					
Wine	(X)	25%	18%	25%	6%
Spirits	(X)	18%	18%	21%	6%

**Build-Up of Retail Prices Before Local Sales Taxes (Retail Privatization Cases, Wine and Spirits)**

Scenario	COGS	PLCB Markup	OCC	Liquor Tax	Sales Tax
Baseline					
Wine	(X)	30%	\$1.10 (avg)	18%	6%
Spirits	(X)	30%	\$1.10 (avg)	18%	6%
Franchise System -					
Royalty (40.0)					
Wine	(X)	25%	18%	25%	6%
Spirits	(X)	18%	18%	21%	6%
Agency Store -					
Low Commission					
Wine	(X)	30%	\$1.10 (avg)	18%	6%
Spirits	(X)	30%	\$1.10 (avg)	18%	6%
Agency Store -					
Medium Commission					
Wine	(X)	30%	\$1.10 (avg)	18%	6%
Spirits	(X)	30%	\$1.10 (avg)	18%	6%
Agency Store -					
High Commission					
Wine	(X)	30%	\$1.10 (avg)	18%	6%
Spirits	(X)	30%	\$1.10 (avg)	18%	6%

**Appendix II**

Financial projections subject to the provisions  
contained in the inside cover page of this report.



**Build-Up of Retail Prices Before Local Sales Taxes (Retail Privatization Cases, Wine Only)**

Scenario	COGS	PLCB Markup	OCC	Liquor Tax	Sales Tax
<b>Baseline</b>					
Wine	(X)	30%	\$1.10 (avg)	18%	6%
Spirits	(X)	30%	\$1.10 (avg)	18%	6%
<b>License System - Low Control</b>					
Wine	(X)	27%	\$0	22%	18%
Spirits	(X)	30%	\$1.10 (avg)	0%	18%
					Sales Tax 6% 6%
<b>License System - High Control</b>					
Wine	(X)	27%	\$0	28%	18%
Spirits	(X)	30%	\$1.10 (avg)	0%	18%
					Sales Tax 6% 6%
<b>Franchise System - Low Markups</b>					
Wine	(X)	8%	\$0	25%	18%
Spirits	(X)	30%	\$1.10 (avg)	0%	18%
					Sales Tax 6% 6%
<b>Franchise System - High Markups</b>					
Wine	(X)	27%	\$0	25%	18%
Spirits	(X)	30%	\$1.10 (avg)	0%	18%
					Sales Tax 6% 6%
<b>Agency Store System</b>					
Wine	(X)	30%	\$1.10 (avg)	18%	6%
Spirits	(X)	30%	\$1.10 (avg)	18%	6%

**Appendix II**

Financial projections subject to the provisions contained in the inside cover page of this report.

## Baseline

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### Descriptive Statistics:

Liquor Excise Tax:	18%
Wholesale Markup:	30% + OCC
Expected Retail Markup:	-
Expected Number of Retail Outlets:	665

### Selected Economic Impacts

Average Impact on Spirits Prices (1st Year):	-
Average Impact on Wine Prices (1st Year):	-
"Up Front" Revenues:	\$0

### Revenue to Commonwealth Government - Baseline (\$millions)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	10-yr Sum
Baseline:	\$240.02	\$241.44	\$243.16	\$245.17	\$247.18	\$249.61	\$252.51	\$255.94	\$259.98	\$264.69	\$2,499.71

# Privatization Analysis of the Pennsylvania Wine and Spirits Industry

## PLCB Summary

Baseline	Forecast 1997	Forecast 1998	Forecast 1999	Forecast 2000	Forecast 2001	Forecast 2002	Forecast 2003	Forecast 2004	Forecast 2005	Forecast 2006
<b>Operating Revenue</b>										
Liquor										
License Sales	121,872,016	121,790,462	122,024,122	122,272,892	122,530,872	122,815,361	123,108,800	123,417,095	123,739,901	124,077,378
Retail Sales	297,072,939	298,452,160	295,889,765	295,325,235	294,818,083	294,347,846	293,914,088	293,516,384	293,154,342	292,827,578
LESS: Pass-through Discounts	9,909,898	9,900,374	9,892,119	9,895,118	9,879,357	9,874,823	9,871,503	9,869,385	9,868,458	9,868,710
<b>Wine</b>										
License Sales	44,857,093	48,180,537	47,728,639	49,338,246	51,018,277	52,785,785	54,590,901	56,494,140	58,478,810	60,548,615
Retail Sales	233,822,944	241,321,634	249,140,399	257,293,404	265,795,473	274,892,125	283,909,606	293,854,926	303,815,895	314,111,103
LESS: Pass-through Discounts	6,592,003	6,605,669	7,027,225	7,258,343	7,499,343	7,750,666	8,012,771	8,286,139	8,571,276	8,888,709
Bottle Pick	7,240,829	7,466,380	7,698,956	7,938,760	8,186,073	8,441,068	8,704,007	8,975,137	9,254,712	9,542,960
Special Order	16,831,161	19,270,000	22,087,219	25,276,170	28,958,242	33,184,068	38,035,028	43,604,700	50,000,919	57,347,680
<b>SUBTOTAL</b>	<b>\$704,895,084</b>	<b>\$715,775,230</b>	<b>\$727,606,758</b>	<b>\$740,289,267</b>	<b>\$753,931,119</b>	<b>\$768,590,783</b>	<b>\$784,378,281</b>	<b>\$801,408,858</b>	<b>\$819,804,904</b>	<b>\$839,718,171</b>
<b>Agency Revenue</b>										
License Fees										
Retail License fees	0	0	0	0	0	0	0	0	0	0
Wholesale License fees	0	0	0	0	0	0	0	0	0	0
Application fees	1,331,424	1,410,043	1,493,305	1,581,493	1,674,888	1,773,767	1,876,508	1,989,430	2,108,903	2,231,314
Transfer fees	808,024	815,853	823,758	831,740	839,799	847,936	856,152	864,447	872,823	881,280
Permit fees	4,850,036	5,024,789	5,205,640	5,393,413	5,587,745	5,789,080	5,997,608	6,213,772	6,437,863	6,669,821
Entertainment fees	650,813	640,240	641,699	637,191	632,713	628,286	623,853	619,470	615,117	610,785
Admin fees	1,716,772	1,688,784	1,659,339	1,630,397	1,601,960	1,574,019	1,546,566	1,519,591	1,493,087	1,467,045
Bond forfeiture	48,581	38,121	29,914	23,473	18,420	14,454	11,342	8,900	6,984	5,480
Franchise Fees	0	0	0	0	0	0	0	0	0	0
Franchise Royalty Fees	0	0	0	0	0	0	0	0	0	0
Interest Income	4,360,178	4,920,239	5,532,240	6,205,420	7,070,208	7,976,370	9,003,184	10,189,635	11,484,832	12,937,253
Enforcement fines	1,129,854	1,099,970	1,071,181	1,043,127	1,015,787	989,182	963,275	938,046	913,476	889,553
Miscellaneous revenue	1,230,439	1,325,968	1,428,908	1,539,843	1,659,590	1,788,219	1,927,049	2,076,957	2,237,881	2,411,821
<b>SUBTOTAL</b>	<b>\$16,127,822</b>	<b>\$16,970,017</b>	<b>\$17,966,184</b>	<b>\$18,948,068</b>	<b>\$20,100,590</b>	<b>\$21,383,294</b>	<b>\$22,807,895</b>	<b>\$24,389,948</b>	<b>\$26,148,567</b>	<b>\$28,103,962</b>
<b>TOTAL REVENUE</b>	<b>\$720,822,906</b>	<b>\$732,745,246</b>	<b>\$745,572,922</b>	<b>\$759,237,333</b>	<b>\$774,032,009</b>	<b>\$790,974,077</b>	<b>\$807,186,176</b>	<b>\$825,798,807</b>	<b>\$845,953,471</b>	<b>\$867,822,133</b>
<b>Operating Expenses</b>										
Cost of goods sold	448,531,185	457,180,951	466,373,902	476,224,837	486,774,792	498,094,053	510,261,321	523,308,055	537,509,831	552,808,123
Salaries and Benefits	12,074,772	12,290,836	12,810,841	12,734,858	12,962,963	13,195,232	13,431,743	13,672,574	13,917,807	14,167,823
Wage Employees	81,350,785	83,803,844	86,119,765	88,500,292	90,947,242	93,462,480	96,047,928	98,705,554	101,437,393	104,245,529
Management	6,089,845	6,251,495	6,417,743	6,588,512	6,763,926	6,944,114	7,129,208	7,319,344	7,514,662	7,715,305
Retail Agency Payments	0	0	0	0	0	0	0	0	0	0
Store Expenses	41,358,358	42,233,352	43,150,731	44,111,895	45,117,520	46,169,563	47,269,266	48,418,163	49,617,881	50,870,152
<b>SUBTOTAL</b>	<b>\$369,804,725</b>	<b>\$380,174,079</b>	<b>\$391,572,902</b>	<b>\$403,159,983</b>	<b>\$414,972,062</b>	<b>\$427,863,442</b>	<b>\$441,139,463</b>	<b>\$454,861,980</b>	<b>\$469,097,573</b>	<b>\$483,806,633</b>
<b>Agency Expenses</b>										
Stores and Purchasing Admin	12,662,325	13,324,843	14,029,592	14,779,280	15,576,653	16,425,409	17,328,259	18,288,931	19,311,184	20,399,022
Executive Expenses	1,114,855	1,153,581	1,193,916	1,235,715	1,279,033	1,323,920	1,370,402	1,418,895	1,469,894	1,520,528
Alcohol Education Expenses	600,000	601,980	616,739	648,302	674,891	703,931	734,049	765,071	797,023	829,934
Administration Expenses	25,431,293	25,775,848	26,148,991	26,551,830	26,995,934	27,481,807	27,991,898	28,537,816	29,109,835	29,707,810
Warehouse Contract	15,184,573	15,467,379	15,765,453	16,048,891	16,347,795	16,652,268	16,962,408	17,278,326	17,600,127	17,927,922
Police (Enforcement)	15,192,774	15,650,802	16,122,639	16,606,700	17,109,416	17,632,226	18,156,588	18,703,960	19,267,851	19,848,734
Other Agencies	2,100,000	1,750,000	1,350,000	1,000,000	1,030,000	1,060,000	1,092,727	1,125,509	1,159,274	1,194,052
Auditor General	6,333,066	6,333,066	6,333,066	6,333,066	6,333,066	6,333,066	6,333,066	6,333,066	6,333,066	6,333,066
Comptroller Operations	95,659	98,848	103,803	108,132	112,842	117,339	122,233	127,330	132,840	138,172
Treasury	310,533	313,899	317,302	320,742	324,219	327,734	331,286	335,908	340,598	345,318
Civil Service	704,824	728,425	752,816	778,023	804,075	830,999	858,825	887,583	917,303	948,018
Payroll Services	304,198	305,080	305,925	306,792	307,662	308,534	309,409	310,286	311,166	312,048
Office of Budget/Admin	500,298	523,134	547,012	571,980	598,088	625,388	653,933	683,782	714,993	747,829
Misc. Agencies	20,784	18,639	17,068	15,463	14,009	12,692	11,499	10,417	9,438	8,551
BMS Services	491,000	522,895	556,438	592,355	630,593	671,299	714,833	760,764	809,873	862,152
<b>SUBTOTAL</b>	<b>\$81,311,959</b>	<b>\$82,859,198</b>	<b>\$84,452,748</b>	<b>\$86,197,273</b>	<b>\$88,027,776</b>	<b>\$90,770,519</b>	<b>\$93,231,275</b>	<b>\$95,816,222</b>	<b>\$98,531,975</b>	<b>\$101,385,614</b>
<b>Privatization Transition Costs and Revenues</b>										
Proceeds from Warehouse and Inventory	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Sick and Annual Leave Payout	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Transition Store Expenses	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unemployment Payment Costs	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>SUBTOTAL</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>TOTAL EXPENSES</b>	<b>\$670,916,684</b>	<b>\$684,599,677</b>	<b>\$699,025,720</b>	<b>\$714,357,256</b>	<b>\$730,094,218</b>	<b>\$746,835,961</b>	<b>\$763,370,739</b>	<b>\$780,207,912</b>	<b>\$798,520,546</b>	<b>\$816,192,247</b>
<b>Drug and Alcohol Program</b>	<b>\$1,306,144</b>	<b>\$1,348,419</b>	<b>\$1,388,871</b>	<b>\$1,430,537</b>	<b>\$1,473,454</b>	<b>\$1,517,657</b>	<b>\$1,563,107</b>	<b>\$1,610,083</b>	<b>\$1,658,565</b>	<b>\$1,708,137</b>
<b>TOTAL PROFIT</b>	<b>\$48,997,076</b>	<b>\$48,797,150</b>	<b>\$45,098,321</b>	<b>\$43,457,530</b>	<b>\$41,564,337</b>	<b>\$39,820,458</b>	<b>\$38,251,950</b>	<b>\$36,808,812</b>	<b>\$35,765,536</b>	<b>\$34,921,750</b>

## Appendix II

Financial projections subject to the provisions contained in the inside cover page of this report.

## State Transfers

### Baseline

Transfers to the Commonwealth	Taxes										
	Forecast 1997	Forecast 1998	Forecast 1999	Forecast 2000	Forecast 2001	Forecast 2002	Forecast 2003	Forecast 2004	Forecast 2005	Forecast 2006	Forecast 2006
Liquor Tax	125,541,766	127,495,593	129,583,404	131,824,888	134,234,108	136,826,949	139,621,369	142,637,710	145,899,035	149,431,532	149,431,532
Galloneage Tax	0	0	0	0	0	0	0	0	0	0	0
Sales Tax	49,379,761	50,148,267	50,969,472	51,851,122	52,798,749	53,818,600	54,917,739	56,104,166	57,386,954	58,776,402	58,776,402
Corporate Income Tax	0	0	0	0	0	0	0	0	0	0	0
Tax Enforcement	0	0	0	0	0	0	0	0	0	0	0
Police (Enforcement)	15,192,774	15,650,802	16,122,639	16,608,700	17,109,416	17,625,226	18,156,588	18,703,968	19,267,851	19,848,734	19,848,734
Drug and Alcohol Program	1,309,144	1,348,419	1,388,871	1,430,537	1,473,454	1,517,657	1,563,187	1,610,083	1,658,385	1,708,137	1,708,137
Profit Transfer to General Fund	48,597,078	46,797,150	45,098,321	43,457,530	41,564,337	39,820,458	38,251,950	36,888,812	35,765,538	34,921,750	34,921,750
IPO Proceeds	0	0	0	0	0	0	0	0	0	0	0
Shifted Benefits Cost	0	0	0	0	0	0	0	0	0	0	0
Annuitants Hospitalization	0	0	0	0	0	0	0	0	0	0	0
Civil Service	0	0	0	0	0	0	0	0	0	0	0
Payroll	0	0	0	0	0	0	0	0	0	0	0
Regulatory Costs	0	0	0	0	0	0	0	0	0	0	0
<b>TOTAL: Commonwealth Transfers</b>	<b>240,020,523</b>	<b>241,440,231</b>	<b>243,162,708</b>	<b>245,172,777</b>	<b>247,180,063</b>	<b>249,608,890</b>	<b>252,510,833</b>	<b>255,944,739</b>	<b>259,977,762</b>	<b>264,686,554</b>	<b>264,686,554</b>
Transfers to Local Government	Local Sales Tax										
	Forecast 1997	Forecast 1998	Forecast 1999	Forecast 2000	Forecast 2001	Forecast 2002	Forecast 2003	Forecast 2004	Forecast 2005	Forecast 2006	Forecast 2006
Local Sales Tax	2,551,288	2,590,994	2,633,423	2,678,975	2,727,935	2,780,628	2,837,416	2,898,715	2,964,993	3,036,781	3,036,781
License Fees to Municipalities	4,725,276	4,682,685	4,640,479	4,598,652	4,557,203	4,516,128	4,475,422	4,435,084	4,395,109	4,355,494	4,355,494
<b>TOTAL: Local Government Transfers</b>	<b>7,276,563</b>	<b>7,273,679</b>	<b>7,273,901</b>	<b>7,277,627</b>	<b>7,285,139</b>	<b>7,296,755</b>	<b>7,312,839</b>	<b>7,333,799</b>	<b>7,360,101</b>	<b>7,392,275</b>	<b>7,392,275</b>

## Appendix II

Financial projections subject to the provisions  
contained in the inside cover page of this report.



## Wholesale/Retail License System

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### Descriptive Statistics:

Liquor Excise Tax:	\$6.75/g sp, \$3.25/g w
Expected Wholesale Markup:	24% sp, 27% w
Expected Retail Markup:	20% sp, 22% w
Expected Number of Retail Outlets:	3,255
Expected Number of Wholesale Outlets:	60

### Selected Economic Impacts

Average Impact on Spirits Prices (1st Year):	9.09%
Average Impact on Wine Prices (1st Year):	4.19%
"Up Front" Revenues:	\$0

### Revenue to Commonwealth Government - Scenario vs. Baseline (\$millions)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	10-yr Sum
Scenario:	\$203.38	\$179.27	\$179.88	\$180.67	\$181.67	\$182.89	\$184.36	\$186.10	\$188.15	\$190.53	\$1,856.90
Baseline:	\$240.02	\$241.44	\$243.16	\$245.17	\$247.18	\$249.61	\$252.51	\$255.94	\$259.98	\$264.69	\$2,499.71
Difference:	(\$36.65)	(\$62.17)	(\$63.28)	(\$64.50)	(\$65.51)	(\$66.72)	(\$68.15)	(\$69.84)	(\$71.83)	(\$74.16)	(\$642.80)

## State Transfers

### Wholesale/Retail Licensing

Transfers to the Commonwealth	Forecast 1997	Forecast 1998	Forecast 1999	Forecast 2000	Forecast 2001	Forecast 2002	Forecast 2003	Forecast 2004	Forecast 2005	Forecast 2006
<b>Taxes</b>										
Liquor Tax	0	0	0	0	0	0	0	0	0	0
Galloneage Tax	111,971,591	111,098,439	110,257,618	109,455,273	108,692,870	107,972,100	107,294,907	106,663,512	106,080,451	105,548,609
Sales Tax	51,551,592	52,345,264	53,194,601	54,107,036	55,088,410	56,145,323	57,285,243	58,516,632	59,849,093	61,293,535
Corporate Income Tax	2,992,824	3,051,305	3,113,428	3,179,668	3,250,418	3,326,118	3,407,268	3,494,436	3,588,263	3,689,480
Tax Enforcement	-1,027,023	-1,030,779	-1,034,799	-1,039,117	-1,043,761	-1,048,763	-1,054,158	-1,059,985	-1,066,291	-1,073,127
Police (Enforcement)	17,471,690	17,998,422	18,541,035	19,100,005	19,675,828	20,269,010	20,880,078	21,509,563	22,158,029	22,826,044
Drug and Alcohol Program	1,309,144	1,348,419	1,388,871	1,430,537	1,473,454	1,517,657	1,563,187	1,610,083	1,658,385	1,708,137
Profit Transfer to General Fund	24,446,656	-81,960	-1,237	144,935	366,377	674,330	1,081,603	1,602,757	2,254,314	3,054,994
IPO Proceeds	0									
Shifted Benefits Cost										
Annuitants Hospitalization	-3,983,355	-4,080,538	-4,180,134	-4,282,203	-4,386,808	-4,494,013	-4,603,883	-4,716,485	-4,831,889	-4,950,166
Civil Service	-599,100	-619,161	-639,893	-661,320	-683,464	-706,349	-730,001	-754,445	-779,707	-805,816
Payroll	-258,568	-259,301	-260,036	-260,773	-261,513	-262,254	-262,998	-263,743	-264,491	-265,241
Regulatory Costs	-500,000	-500,000	-500,000	-500,000	-500,000	-500,000	-500,000	-500,000	-500,000	-500,000
<b>TOTAL: Commonwealth Transfers</b>	<b>203,375,450</b>	<b>179,270,111</b>	<b>179,879,455</b>	<b>180,674,042</b>	<b>181,671,811</b>	<b>182,893,160</b>	<b>184,361,245</b>	<b>186,102,325</b>	<b>188,146,156</b>	<b>190,526,449</b>

Transfers to Local Government	Forecast 1997	Forecast 1998	Forecast 1999	Forecast 2000	Forecast 2001	Forecast 2002	Forecast 2003	Forecast 2004	Forecast 2005	Forecast 2006
Local Sales Tax	2,663,499	2,704,505	2,746,388	2,795,530	2,846,235	2,900,842	2,959,738	3,023,359	3,092,203	3,166,833
License Fees to Municipalities	4,725,276	4,682,685	4,640,479	4,598,652	4,557,203	4,516,128	4,475,422	4,435,084	4,395,109	4,355,494
<b>TOTAL: Local Government Transfers</b>	<b>7,388,775</b>	<b>7,387,191</b>	<b>7,388,866</b>	<b>7,394,183</b>	<b>7,403,438</b>	<b>7,416,969</b>	<b>7,435,160</b>	<b>7,458,443</b>	<b>7,487,312</b>	<b>7,522,327</b>

## IPO With Retail Licensing

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### Descriptive Statistics:

Liquor Excise Tax:	\$6.75/g sp, \$3.25/g w
Wholesale Markup:	24% sp, 27% w
Expected Retail Markup:	20% sp, 22% w
Expected Number of Retail Outlets:	3,255
Expected Number of Wholesale Outl	0

### Selected Economic Impacts

Average Impact on Spirits Prices (1st Year):	9.09%
Average Impact on Wine Prices (1st Year):	4.19%
"Up Front" Revenues:	\$649 million

### Revenue to Commonwealth Government - Scenario vs. Baseline (\$millions)

	1997	1998	1999	2000 <sup>1</sup>	2001	2002	2003	2004	2005	2006	10-yr Sum
Scenario	\$832.52	\$159.23	\$159.24	\$159.34	\$159.57	\$159.92	\$160.41	\$161.05	\$161.86	\$162.85	\$2,276.00
Baseline:	\$240.02	\$241.44	\$243.16	\$245.17	\$247.18	\$249.61	\$252.51	\$255.94	\$259.98	\$264.69	\$2,499.71
Differenc	\$592.50	(\$82.21)	(\$83.93)	(\$85.83)	(\$87.61)	(\$89.69)	(\$92.10)	(\$94.89)	(\$98.12)	(\$101.84)	(\$223.71)

## State Transfers

### IPO with Retail Licensing

Transfers to the Commonwealth	Forecast 1997	Forecast 1998	Forecast 1999	Forecast 2000	Forecast 2001	Forecast 2002	Forecast 2003	Forecast 2004	Forecast 2005	Forecast 2006
<b>Taxes</b>										
Liquor Tax	0	0	0	0	0	0	0	0	0	0
Galloneage Tax	111,971,591	111,098,439	110,257,618	109,455,273	108,692,870	107,972,100	107,294,907	106,663,512	106,080,451	105,548,609
Sales Tax	51,551,592	52,345,264	53,194,601	54,107,036	55,088,410	56,145,323	57,285,243	58,516,632	59,849,093	61,293,535
Corporate Income Tax	14,448,352	14,723,215	15,015,191	15,326,521	15,659,043	16,014,833	16,396,242	16,805,930	17,246,918	17,722,637
Tax Enforcement	-1,027,023	-1,030,779	-1,034,799	-1,039,117	-1,043,761	-1,048,763	-1,054,158	-1,059,985	-1,066,291	-1,073,127
Police (Enforcement)	17,471,690	17,998,422	18,541,035	19,100,005	19,675,828	20,269,010	20,880,076	21,509,563	22,158,029	22,826,044
Drug and Alcohol Program	1,309,144	1,348,419	1,388,871	1,430,537	1,473,454	1,517,657	1,563,187	1,610,083	1,658,385	1,708,137
Profit Transfer to General Fund	-4,887,917	-30,166,805	-30,920,101	-31,700,919	-32,509,970	-33,347,998	-34,215,771	-35,114,094	-36,043,798	-37,005,749
IPO Proceeds	648,644,678									
Shifted Benefits Cost										
Annuity's Hospitalization	-3,983,355	-4,080,538	-4,180,134	-4,282,203	-4,385,808	-4,494,013	-4,603,883	-4,716,485	-4,831,889	-4,950,166
Civil Service	-683,679	-706,572	-730,231	-754,683	-779,953	-806,069	-833,060	-860,955	-889,784	-919,578
Payroll	-295,072	-295,908	-296,747	-297,588	-298,432	-299,278	-300,127	-300,978	-301,831	-302,687
Regulatory Costs	-2,000,000	-2,000,000	-2,000,000	-2,000,000	-2,000,000	-2,000,000	-2,000,000	-2,000,000	-2,000,000	-2,000,000
<b>TOTAL: Commonwealth Transfers</b>	<b>832,520,002</b>	<b>159,233,157</b>	<b>159,235,305</b>	<b>159,344,863</b>	<b>159,570,680</b>	<b>159,922,803</b>	<b>160,412,656</b>	<b>161,053,224</b>	<b>161,859,283</b>	<b>162,847,655</b>

Transfers to Local Government	Forecast 1997	Forecast 1998	Forecast 1999	Forecast 2000	Forecast 2001	Forecast 2002	Forecast 2003	Forecast 2004	Forecast 2005	Forecast 2006
<b>Local Sales Tax</b>	<b>2,663,499</b>	<b>2,704,505</b>	<b>2,748,388</b>	<b>2,795,530</b>	<b>2,846,235</b>	<b>2,900,842</b>	<b>2,959,738</b>	<b>3,023,359</b>	<b>3,092,203</b>	<b>3,166,833</b>
<b>License Fees to Municipalities</b>	<b>4,725,276</b>	<b>4,682,685</b>	<b>4,640,479</b>	<b>4,598,652</b>	<b>4,557,203</b>	<b>4,516,128</b>	<b>4,475,422</b>	<b>4,435,084</b>	<b>4,395,109</b>	<b>4,355,494</b>
<b>TOTAL: Local Government Transfers</b>	<b>7,388,775</b>	<b>7,387,191</b>	<b>7,388,866</b>	<b>7,394,183</b>	<b>7,403,438</b>	<b>7,416,969</b>	<b>7,435,160</b>	<b>7,458,443</b>	<b>7,487,312</b>	<b>7,522,327</b>



## IPO With Retail Franchising

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### Descriptive Statistics:

Liquor Excise Tax:	\$6.75/g sp, \$3.25/g w
Wholesale Markup:	24% sp, 27% w
Expected Retail Markup:	22% sp, 25% w
Expected Number of Retail Outlets:	665
Expected Number of Wholesale Outl	1

### Selected Economic Impacts

Average Impact on Spirits Prices (1st Year):	10.90%
Average Impact on Wine Prices (1st Year):	6.75%
"Up Front" Revenues:	\$606 million

### Revenue to Commonwealth Government - Scenario vs. Baseline (\$millions)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	10-yr Sum
Scenario	\$791.25	\$156.25	\$156.25	\$156.36	\$156.58	\$156.92	\$157.40	\$158.03	\$158.81	\$159.78	\$2,207.62
Baseline:	\$240.02	\$241.44	\$243.16	\$245.17	\$247.18	\$249.61	\$252.51	\$255.94	\$259.98	\$264.69	\$2,499.71
Differenc	\$551.23	(\$85.19)	(\$86.91)	(\$88.82)	(\$90.60)	(\$92.69)	(\$95.11)	(\$97.92)	(\$101.16)	(\$104.91)	(\$292.08)

## State Transfers

### IPO with Retail Franchising

<b>Transfers to the Commonwealth</b>	Forecast 1997	Forecast 1998	Forecast 1999	Forecast 2000	Forecast 2001	Forecast 2002	Forecast 2003	Forecast 2004	Forecast 2005	Forecast 2006
<b>Taxes</b>	0	0	0	0	0	0	0	0	0	0
Liquor Tax	110,183,578	109,326,969	108,501,812	107,714,359	106,966,060	106,258,584	105,593,848	104,974,045	104,401,676	103,879,583
Galloneage Tax	51,739,698	52,541,104	53,398,457	54,319,348	55,309,664	56,376,059	57,526,065	58,768,212	60,112,181	61,568,972
Sales Tax	16,546,516	12,625,091	12,882,026	13,155,967	13,448,532	13,761,546	14,097,076	14,457,462	14,845,358	15,263,783
Corporate Income Tax	-404,837	-408,630	-412,687	-417,045	-421,732	-426,779	-432,221	-438,100	-444,460	-451,354
Tax Enforcement	15,952,413	16,433,342	16,928,771	17,439,135	17,964,886	18,506,488	19,064,417	19,639,167	20,231,244	20,841,170
Police (Enforcement)	1,309,144	1,348,419	1,388,871	1,430,537	1,473,454	1,517,657	1,563,187	1,610,083	1,658,385	1,708,137
Drug and Alcohol Program	-3,311,054	-28,533,647	-29,229,011	-29,950,202	-30,697,873	-31,472,702	-32,275,397	-33,106,693	-33,967,355	-34,858,178
Profit Transfer to General Fund	606,192,792									
IPO Proceeds										
Shifted Benefits Cost										
Annuitants Hospitalization	-3,983,355	-4,080,538	-4,180,134	-4,282,203	-4,386,808	-4,494,013	-4,603,883	-4,716,485	-4,831,889	-4,950,166
Civil Service	-683,679	-706,572	-730,231	-754,683	-779,953	-806,069	-833,060	-860,955	-889,784	-919,578
Payroll	-295,072	-295,908	-296,747	-297,588	-298,432	-299,278	-300,127	-300,978	-301,831	-302,687
Regulatory Costs	-2,000,000	-2,000,000	-2,000,000	-2,000,000	-2,000,000	-2,000,000	-2,000,000	-2,000,000	-2,000,000	-2,000,000
<b>TOTAL: Commonwealth Transfers</b>	<b>791,246,146</b>	<b>156,249,630</b>	<b>156,251,127</b>	<b>156,357,625</b>	<b>156,577,797</b>	<b>156,921,493</b>	<b>157,399,905</b>	<b>158,025,758</b>	<b>158,813,525</b>	<b>159,779,683</b>

<b>Transfers to Local Government</b>	Forecast 1997	Forecast 1998	Forecast 1999	Forecast 2000	Forecast 2001	Forecast 2002	Forecast 2003	Forecast 2004	Forecast 2005	Forecast 2006
<b>Local Sales Tax</b>	2,673,218	2,714,624	2,758,920	2,806,500	2,857,666	2,912,763	2,972,180	3,036,358	3,105,796	3,181,064
<b>License Fees to Municipalities</b>	4,725,276	4,682,685	4,640,479	4,598,652	4,557,203	4,516,128	4,475,422	4,435,084	4,395,109	4,355,494
<b>TOTAL: Local Government Transfers</b>	<b>7,398,493</b>	<b>7,397,309</b>	<b>7,399,399</b>	<b>7,405,152</b>	<b>7,414,869</b>	<b>7,428,891</b>	<b>7,447,602</b>	<b>7,471,441</b>	<b>7,500,905</b>	<b>7,536,558</b>

## Retail License System - Low Control

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### Descriptive Statistics:

Liquor Excise Tax:	18%
Wholesale Markup:	27%
Expected Retail Markup:	22%
Expected Number of Retail Outlets:	3,255

### Selected Economic Impacts

Average Impact on Spirits Prices (1st Year):	6.87%
Average Impact on Wine Prices (1st Year):	-2.89%
"Up Front" Revenues:	\$0

### Revenue to Commonwealth Government - Scenario vs. Baseline (\$millions)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	10-yr Sum
Scenario	\$252.38	\$288.66	\$294.62	\$300.98	\$307.45	\$314.47	\$322.09	\$330.39	\$339.42	\$349.27	\$3,099.72
Baseline:	\$240.02	\$241.44	\$243.16	\$245.17	\$247.18	\$249.61	\$252.51	\$255.94	\$259.98	\$264.69	\$2,499.71
Differenc	\$12.36	\$47.22	\$51.45	\$55.80	\$60.27	\$64.86	\$69.58	\$74.44	\$79.44	\$84.59	\$600.02

**PLCB Summary**

**License System - Low  
Control**

	Forecast 1997	Forecast 1998	Forecast 1999	Forecast 2000	Forecast 2001	Forecast 2002	Forecast 2003	Forecast 2004	Forecast 2005	Forecast 2006
<b>Operating Revenue</b>										
Liquor										
License Sales	107,766,947	108,039,774	108,283,117	108,556,978	108,831,356	109,118,252	109,411,668	109,717,808	110,034,075	110,361,073
Retail Sales	243,481,715	243,000,831	242,548,946	242,125,736	241,730,908	241,364,175	241,025,274	240,713,955	240,428,981	240,173,128
LESS: Pass-through Discounts	8,315,246	8,309,811	8,304,911	8,301,139	8,298,288	8,296,350	8,295,321	8,295,194	8,295,063	8,294,823
Wine										
License Sales	39,145,273	40,531,028	41,960,773	43,467,863	45,027,941	46,652,773	48,345,251	50,108,389	51,945,380	53,859,501
Retail Sales	189,988,438	196,485,439	203,224,331	210,245,581	217,581,855	225,185,812	233,131,135	241,412,556	250,044,881	259,043,875
LESS: Pass-through Discounts	5,424,145	5,610,503	5,804,079	6,005,744	6,215,854	6,434,766	6,662,930	6,900,898	7,148,522	7,408,850
Bottle Pick	7,240,829	7,466,380	7,698,958	7,938,760	8,186,073	8,441,068	8,704,007	8,975,137	9,254,712	9,542,986
Special Order	16,076,935	16,400,877	16,725,248	17,050,616	17,375,984	17,701,352	18,026,720	18,352,088	18,677,456	19,002,824
<b>SUBTOTAL</b>	<b>\$590,003,746</b>	<b>\$600,004,015</b>	<b>\$610,005,384</b>	<b>\$622,134,459</b>	<b>\$634,423,406</b>	<b>\$647,633,719</b>	<b>\$661,857,555</b>	<b>\$677,189,287</b>	<b>\$693,777,170</b>	<b>\$711,725,618</b>
<b>Agency Revenue</b>										
License Fees	18,275,000	18,275,000	18,275,000	18,275,000	18,275,000	18,275,000	18,275,000	18,275,000	18,275,000	18,275,000
Retail License fees	0	0	0	0	0	0	0	0	0	0
Wholesale License fees	1,331,424	1,410,043	1,493,305	1,581,483	1,674,868	1,773,767	1,878,508	1,989,430	2,106,903	2,231,314
Application fees	808,024	815,853	823,758	831,740	839,769	847,836	855,952	864,117	872,339	881,280
Transfer fees	4,650,036	5,024,789	5,205,840	5,393,413	5,587,745	5,789,080	5,997,668	6,213,772	6,437,663	6,669,821
Permit fees	850,813	848,240	845,669	843,191	840,713	838,235	835,757	833,279	830,801	828,323
Entertainment fees	1,718,772	1,688,794	1,658,339	1,628,397	1,600,960	1,574,019	1,548,566	1,523,113	1,497,660	1,472,207
Admin fees	48,581	38,121	28,914	23,473	18,420	14,454	11,342	8,900	6,984	5,480
Bond forfeiture	0	0	0	0	0	0	0	0	0	0
Franchise Fees	0	0	0	0	0	0	0	0	0	0
Franchise Royalty Fees	0	0	0	0	0	0	0	0	0	0
Interest Income	4,360,178	4,920,239	5,552,240	6,265,420	7,070,208	7,978,370	8,993,164	10,159,635	11,484,832	12,937,253
Enforcement fines	1,276,396	1,242,968	1,210,412	1,178,710	1,147,839	1,117,776	1,088,501	1,059,992	1,032,230	1,005,195
Miscellaneous revenue	1,230,439	1,325,968	1,428,908	1,539,643	1,659,390	1,788,219	1,927,049	2,076,657	2,237,881	2,411,821
<b>SUBTOTAL</b>	<b>\$32,540,664</b>	<b>\$33,368,013</b>	<b>\$34,320,415</b>	<b>\$35,356,670</b>	<b>\$36,507,942</b>	<b>\$37,766,887</b>	<b>\$39,137,820</b>	<b>\$40,620,894</b>	<b>\$42,242,319</b>	<b>\$44,004,804</b>
<b>TOTAL REVENUE</b>	<b>\$622,553,410</b>	<b>\$633,392,028</b>	<b>\$644,325,799</b>	<b>\$657,491,129</b>	<b>\$670,931,348</b>	<b>\$685,420,607</b>	<b>\$701,065,375</b>	<b>\$717,810,181</b>	<b>\$736,319,489</b>	<b>\$756,729,222</b>
<b>Operating Expenses</b>										
Cost of goods sold	437,311,132	444,724,202	452,655,247	461,170,935	470,327,360	480,187,930	490,824,414	502,318,152	514,761,443	528,259,152
Salaries and Benefits	0	0	0	0	0	0	0	0	0	0
Wage Employees	0	0	0	0	0	0	0	0	0	0
Salaried Employees	0	0	0	0	0	0	0	0	0	0
Management	0	0	0	0	0	0	0	0	0	0
Retail Agency Payments	0	0	0	0	0	0	0	0	0	0
Store Expenses	0	0	0	0	0	0	0	0	0	0
<b>SUBTOTAL</b>	<b>\$437,311,132</b>	<b>\$444,724,202</b>	<b>\$452,655,247</b>	<b>\$461,170,935</b>	<b>\$470,327,360</b>	<b>\$480,187,930</b>	<b>\$490,824,414</b>	<b>\$502,318,152</b>	<b>\$514,761,443</b>	<b>\$528,259,152</b>
<b>Agency Expenses</b>										
Stores and Purchasing Admin	1,898,193	1,726,374	1,755,683	1,786,125	1,817,830	1,850,851	1,885,266	1,921,158	1,958,615	1,997,732
Executive Expenses	1,114,855	1,153,581	1,193,016	1,235,715	1,279,033	1,323,926	1,370,482	1,418,695	1,468,884	1,520,526
Alcohol Education Expenses	668,000	891,880	918,739	948,302	974,691	1,003,931	1,034,049	1,065,071	1,097,023	1,129,934
Administration Expenses	21,207,040	21,464,155	21,743,834	22,048,772	22,373,757	22,725,881	23,103,640	23,508,443	23,941,621	24,404,436
Warehouse Contract	18,980,718	19,334,224	19,694,316	20,061,114	20,434,744	20,815,333	21,203,010	21,597,907	22,000,159	22,409,803
Police (Enforcement)	17,167,834	17,685,406	18,216,582	18,767,831	19,333,840	19,916,506	20,516,944	21,135,484	21,772,672	22,429,069
Other Agencies	0	0	0	0	0	0	0	0	0	0
Auditor General	2,100,000	1,750,000	1,350,000	1,000,000	1,030,000	1,060,000	1,092,727	1,125,508	1,159,274	1,194,052
Comptroller Operations	4,823,138	4,823,138	4,823,138	4,823,138	4,823,138	4,823,138	4,823,138	4,823,138	4,823,138	4,823,138
Treasury	95,859	99,848	103,803	108,132	112,642	117,339	122,233	127,330	132,640	138,172
General Services	48,580	47,085	45,595	44,111	42,633	41,160	39,693	38,232	36,776	35,327
Civil Service	105,724	109,284	112,922	116,704	120,611	124,650	128,824	133,137	137,595	142,203
Payroll Services	45,830	45,750	45,880	46,010	46,149	46,280	46,411	46,543	46,675	46,807
Office of Budget/Admin	75,045	78,470	82,052	85,797	89,713	93,808	98,090	102,567	107,240	112,144
Misc. Agencies	20,784	18,839	17,086	15,483	14,009	12,882	11,499	10,417	9,438	8,551
BMS Services	491,000	522,695	556,436	592,355	630,593	671,299	714,633	760,764	808,873	862,152
<b>SUBTOTAL</b>	<b>\$68,838,007</b>	<b>\$69,550,616</b>	<b>\$70,463,953</b>	<b>\$71,479,578</b>	<b>\$72,592,184</b>	<b>\$74,435,498</b>	<b>\$76,000,519</b>	<b>\$77,626,396</b>	<b>\$79,315,443</b>	<b>\$81,070,146</b>
<b>Privatization Transition Costs and Revenues</b>										
Proceeds from Warehouse and Inventory	0	0	0	0	0	0	0	0	0	0
Sick and Annual Leave Payout	99,941,935	0	0	0	0	0	0	0	0	0
Transition Store Expenses	10,252,126	0	0	0	0	0	0	0	0	0
Unemployment Payment Costs	10,569,800	0	0	0	0	0	0	0	0	0
<b>SUBTOTAL</b>	<b>\$120,763,861</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>TOTAL EXPENSES</b>	<b>\$558,074,993</b>	<b>\$554,274,819</b>	<b>\$563,119,200</b>	<b>\$572,650,513</b>	<b>\$582,919,544</b>	<b>\$594,623,428</b>	<b>\$606,824,933</b>	<b>\$619,944,548</b>	<b>\$634,076,886</b>	<b>\$649,329,298</b>
<b>Drug and Alcohol Program</b>	\$1,309,144	\$1,348,419	\$1,388,871	\$1,430,537	\$1,473,554	\$1,517,857	\$1,563,187	\$1,610,083	\$1,658,365	\$1,708,137
<b>TOTAL PROFIT</b>	<b>\$84,531,265</b>	<b>\$117,768,760</b>	<b>\$120,407,727</b>	<b>\$123,410,079</b>	<b>\$126,201,351</b>	<b>\$129,278,522</b>	<b>\$132,677,255</b>	<b>\$136,431,531</b>	<b>\$140,584,227</b>	<b>\$145,162,788</b>

**Appendix II**

Financial projections subject to the provisions  
contained in the inside cover page of this report.



## State Transfers

### License System - Low Control

Transfers to the Commonwealth		Forecast 1997	Forecast 1998	Forecast 1999	Forecast 2000	Forecast 2001	Forecast 2002	Forecast 2003	Forecast 2004	Forecast 2005	Forecast 2006
<b>Taxes</b>											
Liquor Tax		104,897,325	106,658,774	108,537,557	110,555,222	112,722,720	115,054,677	117,567,639	120,280,343	123,214,044	126,392,872
Gallonage Tax		0	0	0	0	0	0	0	0	0	0
Sales Tax		50,336,730	51,181,031	52,083,556	53,051,766	54,091,876	55,210,904	56,416,791	57,718,527	59,126,313	60,651,726
Corporate Income Tax		0	0	0	0	0	0	0	0	0	0
Tax Enforcement		-1,021,274	-1,025,270	-1,029,541	-1,034,123	-1,039,045	-1,044,341	-1,050,048	-1,056,208	-1,062,871	-1,070,090
Police (Enforcement)		17,167,834	17,685,406	18,218,582	18,767,831	19,333,640	19,916,506	20,516,944	21,135,484	21,772,672	22,429,069
Drug and Alcohol Program		1,309,144	1,348,419	1,388,871	1,430,537	1,473,454	1,517,657	1,563,187	1,610,083	1,658,385	1,708,137
Profit Transfer to General Fund		84,531,265	117,768,790	120,497,727	123,410,079	126,201,351	129,279,522	132,677,255	136,431,531	140,584,227	145,182,788
IPO Proceeds		0									
Shifted Benefits Cost											
Annuity/Hospitalization		-3,983,355	-4,080,538	-4,180,134	-4,282,203	-4,386,808	-4,494,013	-4,603,883	-4,716,485	-4,831,889	-4,950,166
Civil Service		-599,100	-619,161	-639,893	-661,320	-683,464	-706,349	-730,001	-754,445	-779,707	-805,816
Payroll		-258,568	-259,301	-260,036	-260,773	-261,513	-262,254	-262,998	-263,743	-264,491	-265,241
Regulatory Costs		0	0	0	0	0	0	0	0	0	0
<b>TOTAL: Commonwealth Transfers</b>		252,380,002	288,656,151	294,616,688	300,977,017	307,452,211	314,472,309	322,094,886	330,385,087	339,416,682	349,273,280
<b>Transfers to Local Government</b>											
Local Sales Tax		2,600,731	2,844,353	2,690,984	2,741,008	2,794,747	2,852,563	2,914,868	2,982,124	3,054,859	3,133,673
License Fees to Municipalities		4,725,276	4,682,685	4,640,479	4,598,652	4,557,203	4,516,128	4,475,422	4,435,084	4,395,109	4,355,494
<b>TOTAL: Local Government Transfers</b>		7,326,007	7,527,038	7,331,462	7,339,660	7,351,950	7,368,691	7,390,290	7,417,208	7,449,968	7,489,167

## Retail License System - Medium Control

### **Descriptive Statistics:**

Liquor Excise Tax:	18%
Wholesale Markup:	27%
Expected Retail Markup:	25%
Expected Number of Retail Outlets:	2,200

### **Selected Economic Impacts**

Average Impact on Spirits Prices (1st Year):	9.50%
Average Impact on Wine Prices (1st Year):	-0.50%
"Up Front" Revenues:	\$0

### **Revenue to Commonwealth Government - Scenario vs. Baseline (\$millions)**

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	10-yr Sum
Scenario	\$244.45	\$280.65	\$286.53	\$292.80	\$299.19	\$306.11	\$313.62	\$321.80	\$330.71	\$340.43	\$3,016.29
Baseline:	\$240.02	\$241.44	\$243.16	\$245.17	\$247.18	\$249.61	\$252.51	\$255.94	\$259.98	\$264.69	\$2,499.71
Differenc	\$4.43	\$39.21	\$43.37	\$47.63	\$52.01	\$56.50	\$61.11	\$65.86	\$70.73	\$75.74	\$516.59

# Privatization Analysis of the Pennsylvania Wine and Spirits Industry

## PLCB Summary

### License System - Medium Control

	Forecast 1997	Forecast 1998	Forecast 1999	Forecast 2000	Forecast 2001	Forecast 2002	Forecast 2003	Forecast 2004	Forecast 2005	Forecast 2006
<b>Operating Revenue</b>										
Liquor										
License Sales	105,523,459	105,751,929	105,986,736	106,235,884	106,493,367	106,751,188	107,039,348	107,327,650	107,620,897	107,935,883
Retail Sales	238,351,090	237,655,039	237,387,724	236,946,784	236,537,680	236,154,794	235,789,239	235,470,987	235,188,740	234,895,331
LESS: Pass-through Discounts	6,140,026	6,133,647	6,128,190	6,123,649	6,120,016	6,117,290	6,115,458	6,114,616	6,114,460	6,115,283
<b>Wine</b>										
License Sales	36,630,682	39,688,676	41,296,093	42,765,468	44,293,471	45,884,719	47,542,087	49,268,489	51,067,015	52,940,935
Retail Sales	187,016,289	193,371,409	199,971,946	206,848,367	214,012,911	221,476,336	229,256,009	237,365,933	245,616,780	254,025,923
LESS: Pass-through Discounts	5,339,008	5,521,566	5,711,191	5,908,701	6,114,465	6,326,849	6,552,236	6,785,026	7,027,645	7,280,528
Bottle Pick	7,240,829	7,466,380	7,898,956	8,396,780	8,968,073	9,641,066	10,367,007	11,137,137	11,954,712	12,819,988
Special Order	15,762,335	16,036,389	20,665,389	23,853,355	27,076,294	31,005,355	35,507,801	40,672,346	46,597,376	53,395,842
<b>SUBTOTAL</b>	<b>\$576,907,627</b>	<b>\$586,736,672</b>	<b>\$599,171,559</b>	<b>\$610,356,294</b>	<b>\$622,367,512</b>	<b>\$635,276,974</b>	<b>\$649,182,876</b>	<b>\$664,161,358</b>	<b>\$680,390,214</b>	<b>\$697,940,909</b>
<b>Agency Revenue</b>										
License Fees										
Retail License fees	11,000,000	11,000,000	11,000,000	11,000,000	11,000,000	11,000,000	11,000,000	11,000,000	11,000,000	11,000,000
Wholesale License fees	0	0	0	0	0	0	0	0	0	0
Application fees	1,331,424	1,410,043	1,493,305	1,581,483	1,674,868	1,773,767	1,878,506	1,989,430	2,106,903	2,231,314
Transfer fees	808,024	815,653	823,758	831,740	839,799	847,936	856,152	864,447	872,823	881,280
Permit fees	4,650,036	5,024,789	5,205,840	5,393,413	5,587,745	5,789,000	5,997,068	6,213,772	6,437,683	6,669,821
Entertainment fees	650,613	646,240	641,869	637,191	632,713	628,268	623,853	619,470	615,117	610,795
Admin fees	1,716,772	1,686,794	1,659,339	1,630,397	1,601,960	1,574,019	1,546,566	1,519,591	1,493,087	1,467,045
Bond forfeiture	48,581	38,121	29,914	23,473	18,420	14,454	11,342	8,900	6,984	5,480
Franchise Fees	0	0	0	0	0	0	0	0	0	0
Franchise Royalty Fees	0	0	0	0	0	0	0	0	0	0
Interest Income	4,380,176	4,920,239	5,552,240	6,265,420	7,070,208	7,976,370	9,003,164	10,159,635	11,464,832	12,937,253
Enforcement fines	1,231,214	1,196,968	1,167,666	1,136,986	1,107,206	1,076,209	1,049,970	1,022,470	995,691	969,613
Miscellaneous revenue	1,230,439	1,325,966	1,426,908	1,539,643	1,659,380	1,788,219	1,927,049	2,076,657	2,237,681	2,411,821
<b>SUBTOTAL</b>	<b>\$27,220,482</b>	<b>\$26,099,014</b>	<b>\$29,002,568</b>	<b>\$30,039,946</b>	<b>\$31,192,310</b>	<b>\$32,472,320</b>	<b>\$33,894,289</b>	<b>\$35,474,373</b>	<b>\$37,230,780</b>	<b>\$39,184,022</b>
<b>TOTAL REVENUE</b>	<b>\$604,128,109</b>	<b>\$612,835,686</b>	<b>\$628,174,127</b>	<b>\$640,396,240</b>	<b>\$653,559,822</b>	<b>\$667,751,294</b>	<b>\$683,077,165</b>	<b>\$699,635,731</b>	<b>\$717,620,995</b>	<b>\$737,124,931</b>
<b>Operating Expenses</b>										
Cost of goods sold	429,020,931	436,287,881	444,012,284	452,329,109	461,273,316	470,906,950	481,300,244	492,532,006	504,094,966	517,889,346
Salaries and Benefits	0	0	0	0	0	0	0	0	0	0
Wage Employees	0	0	0	0	0	0	0	0	0	0
Self-employed Employees	0	0	0	0	0	0	0	0	0	0
Management	0	0	0	0	0	0	0	0	0	0
Retail Agency Payments	0	0	0	0	0	0	0	0	0	0
Store Expenses	0	0	0	0	0	0	0	0	0	0
<b>SUBTOTAL</b>	<b>\$429,020,931</b>	<b>\$436,287,881</b>	<b>\$444,012,284</b>	<b>\$452,329,109</b>	<b>\$461,273,316</b>	<b>\$470,906,950</b>	<b>\$481,300,244</b>	<b>\$492,532,006</b>	<b>\$504,094,966</b>	<b>\$517,889,346</b>
<b>Agency Expenses</b>										
Stores and Purchasing Admin	1,096,193	1,726,374	1,755,663	1,766,125	1,617,630	1,650,851	1,685,266	1,921,150	1,958,615	1,997,732
Executive Expenses	1,114,055	1,153,591	1,193,916	1,235,715	1,278,033	1,323,929	1,370,492	1,416,095	1,468,804	1,520,526
Alcohol Education Expenses	868,000	891,980	916,739	946,302	974,891	1,003,931	1,034,049	1,065,071	1,097,023	1,129,934
Administration Expenses	20,653,750	20,909,300	21,167,356	21,487,356	21,811,343	22,159,788	22,533,664	22,934,136	23,362,376	23,819,757
Warehouse Contract	17,917,706	18,251,507	18,591,434	18,937,692	19,280,398	19,649,674	20,015,641	20,388,424	20,768,150	21,154,949
Police (Enforcement)	10,580,123	17,039,374	17,573,676	18,103,483	18,640,263	19,211,497	19,790,660	20,387,325	21,001,958	21,635,120
Other Agencies										
Auditor General	2,100,000	1,750,000	1,350,000	1,000,000	1,030,000	1,060,900	1,092,727	1,125,509	1,159,274	1,194,052
Comptroller Operations	4,623,136	4,623,136	4,623,136	4,623,136	4,623,136	4,623,136	4,623,136	4,623,136	4,623,136	4,623,136
Treasury	95,659	99,848	103,803	108,132	112,842	117,339	122,233	127,330	132,640	138,172
General Services	46,580	47,065	47,595	48,111	48,633	49,160	49,693	50,232	50,776	51,327
Civil Service	105,724	109,284	112,922	116,704	120,611	124,650	128,824	133,137	137,595	142,203
Payroll Services	45,630	45,759	45,889	46,019	46,149	46,280	46,411	46,543	46,675	46,807
Office of Budget/Admin	75,045	76,470	82,052	85,797	89,713	93,806	98,090	102,567	107,248	112,144
Misc. Agencies	20,764	16,639	17,066	15,463	14,009	12,662	11,499	10,417	9,436	8,551
BGIS Services	491,000	522,695	556,438	592,355	630,593	671,299	714,633	760,764	809,673	862,152
<b>SUBTOTAL</b>	<b>\$66,414,068</b>	<b>\$67,287,013</b>	<b>\$68,159,269</b>	<b>\$69,132,392</b>	<b>\$70,538,048</b>	<b>\$71,998,937</b>	<b>\$73,517,031</b>	<b>\$75,094,449</b>	<b>\$76,733,475</b>	<b>\$78,436,563</b>
<b>Privatization Transition Costs and Revenues</b>										
Proceeds from Warehouse and Inventory	0	0	0	0	0	0	0	0	0	0
Sick and Annual Leave Payout	\$9,941,935	0	0	0	0	0	0	0	0	0
Transition Store Expenses	\$10,252,126	0	0	0	0	0	0	0	0	0
Unemployment Payment Costs	\$10,569,600	0	0	0	0	0	0	0	0	0
<b>SUBTOTAL</b>	<b>\$30,763,661</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>TOTAL EXPENSES</b>	<b>\$706,207,678</b>	<b>\$703,534,893</b>	<b>\$712,171,533</b>	<b>\$721,461,501</b>	<b>\$731,611,366</b>	<b>\$742,905,887</b>	<b>\$754,817,274</b>	<b>\$767,627,255</b>	<b>\$781,428,441</b>	<b>\$796,325,909</b>
<b>Drug and Alcohol Program</b>	<b>\$1,308,144</b>	<b>\$1,346,419</b>	<b>\$1,386,871</b>	<b>\$1,430,537</b>	<b>\$1,475,454</b>	<b>\$1,517,657</b>	<b>\$1,563,167</b>	<b>\$1,610,083</b>	<b>\$1,658,385</b>	<b>\$1,708,137</b>
<b>TOTAL PROFIT</b>	<b>\$76,680,287</b>	<b>\$111,902,374</b>	<b>\$114,613,723</b>	<b>\$117,508,202</b>	<b>\$120,276,003</b>	<b>\$123,327,750</b>	<b>\$126,696,706</b>	<b>\$130,418,393</b>	<b>\$134,534,109</b>	<b>\$139,090,865</b>

## State Transfers

License System - Medium  
Control

Transfers to the Commonwealth	Taxes									
	Forecast 1997	Forecast 1998	Forecast 1999	Forecast 2000	Forecast 2001	Forecast 2002	Forecast 2003	Forecast 2004	Forecast 2005	Forecast 2006
Liquor Tax	102,910,860	104,628,652	106,465,068	108,435,513	110,552,659	112,830,823	115,286,197	117,937,120	120,804,390	123,911,624
Galloneage Tax	0	0	0	0	0	0	0	0	0	0
Sales Tax	50,597,839	51,442,421	52,345,325	53,314,127	54,355,057	55,475,155	56,682,380	57,985,751	59,395,492	60,923,215
Corporate Income Tax	0	0	0	0	0	0	0	0	0	0
Tax Enforcement	-768,708	-772,705	-776,978	-781,563	-786,489	-791,790	-797,503	-803,672	-810,343	-817,573
Police (Enforcement)	16,560,123	17,059,374	17,573,676	18,103,483	18,649,263	19,211,497	19,790,680	20,387,325	21,001,958	21,635,120
Drug and Alcohol Program	1,309,144	1,348,419	1,388,871	1,430,537	1,473,454	1,517,657	1,563,187	1,610,083	1,658,385	1,708,137
Profit Transfer to General Fund	78,680,287	111,902,374	114,613,723	117,506,202	120,275,003	123,327,750	126,696,706	130,418,393	134,534,169	139,090,885
IPO Proceeds	0									
Shifted Benefits Cost										
Annuitants Hospitalization	-3,983,355	-4,080,538	-4,180,134	-4,282,203	-4,386,808	-4,494,013	-4,603,883	-4,716,485	-4,831,889	-4,950,166
Civil Service	-599,100	-619,161	-639,893	-661,320	-683,464	-706,349	-730,001	-754,445	-779,707	-805,818
Payroll	-258,568	-259,301	-260,036	-260,773	-261,513	-262,254	-262,998	-263,743	-264,491	-265,241
Regulatory Costs	0	0	0	0	0	0	0	0	0	0
<b>TOTAL: Commonwealth Transfers</b>	<b>244,448,523</b>	<b>280,649,535</b>	<b>286,529,623</b>	<b>292,804,003</b>	<b>299,187,162</b>	<b>306,108,476</b>	<b>313,624,765</b>	<b>321,800,328</b>	<b>330,707,963</b>	<b>340,430,186</b>
Transfers to Local Government										
	Forecast 1997	Forecast 1998	Forecast 1999	Forecast 2000	Forecast 2001	Forecast 2002	Forecast 2003	Forecast 2004	Forecast 2005	Forecast 2006
Local Sales Tax	2,614,222	2,657,858	2,704,508	2,754,563	2,808,345	2,866,216	2,928,590	2,995,930	3,068,767	3,147,699
License Fees to Municipalities	4,725,276	4,682,685	4,640,479	4,598,652	4,557,203	4,516,128	4,475,422	4,435,084	4,395,109	4,355,494
<b>TOTAL: Local Government Transfers</b>	<b>7,339,497</b>	<b>7,340,544</b>	<b>7,344,987</b>	<b>7,353,216</b>	<b>7,365,548</b>	<b>7,382,344</b>	<b>7,404,012</b>	<b>7,431,014</b>	<b>7,463,876</b>	<b>7,503,194</b>

## Appendix II

Financial projections subject to the provisions  
contained in the inside cover page of this report.



## Retail License System - High Control

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### Descriptive Statistics:

Liquor Excise Tax:	18%
Wholesale Markup:	27% w, 25% sp
Expected Retail Markup:	28% w, 27% sp
Expected Number of Retail Outlets:	1,200

### Selected Economic Impacts

Average Impact on Spirits Prices (1st Year):	9.50%
Average Impact on Wine Prices (1st Year):	1.89%
"Up Front" Revenues:	\$0

### Revenue to Commonwealth Government - Scenario vs. Baseline (\$millions)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	10-yr Sum
Scenario	\$233.63	\$269.80	\$275.64	\$281.87	\$288.20	\$295.07	\$302.53	\$310.64	\$319.48	\$329.12	\$2,905.99
Baseline:	\$240.02	\$241.44	\$243.16	\$245.17	\$247.18	\$249.61	\$252.51	\$255.94	\$259.98	\$264.69	\$2,499.71
Differenc	(\$6.39)	\$28.36	\$32.48	\$36.70	\$41.02	\$45.46	\$50.02	\$54.70	\$59.50	\$64.44	\$406.28

# Privatization Analysis of the Pennsylvania Wine and Spirits Industry

## PLCB Summary

### License System - High Control

	Forecast 1997	Forecast 1998	Forecast 1999	Forecast 2000	Forecast 2001	Forecast 2002	Forecast 2003	Forecast 2004	Forecast 2005	Forecast 2006
<b>Operating Revenue</b>										
Liquor										
License Sales	103,883,841	104,096,545	104,319,824	104,562,877	104,816,306	105,079,908	105,353,889	105,637,848	105,931,789	106,238,115
Retail Sales	234,597,530	234,109,310	233,649,334	233,217,287	232,812,874	232,435,820	232,085,865	231,762,783	231,466,279	231,196,192
LESS: Pass-through Discounts	8,011,838	8,005,558	8,000,187	7,995,718	7,992,144	7,989,458	7,987,855	7,986,729	7,986,873	7,987,484
Wine										
License Sales	37,916,452	39,246,328	40,826,412	42,063,128	43,559,000	45,118,895	46,738,883	48,428,539	50,188,848	52,022,370
Retail Sales	184,034,140	190,257,469	198,719,560	203,451,153	210,484,187	217,771,060	225,364,884	233,319,311	241,588,689	250,207,970
LESS: Pass-through Discounts	5,253,874	5,432,869	5,818,303	5,811,858	6,013,075	6,222,911	6,441,541	6,669,358	6,908,788	7,154,205
Bottle Pick	7,240,829	7,466,380	7,898,958	7,938,780	8,168,073	8,441,068	8,704,007	8,975,137	9,254,712	9,542,998
Special Order	15,661,952	17,917,494	20,500,578	23,460,389	26,852,474	30,740,801	35,198,821	40,311,015	46,174,548	52,901,178
<b>SUBTOTAL</b>	<b>\$570,048,831</b>	<b>\$579,645,330</b>	<b>\$589,885,874</b>	<b>\$600,986,218</b>	<b>\$612,885,875</b>	<b>\$625,372,955</b>	<b>\$638,036,953</b>	<b>\$653,778,326</b>	<b>\$669,711,203</b>	<b>\$686,985,135</b>
<b>Agency Revenue</b>										
License Fees										
Retail License fees	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000
Wholesale License fees	0	0	0	0	0	0	0	0	0	0
Application fees	1,331,424	1,410,043	1,493,305	1,581,483	1,674,668	1,773,787	1,878,508	1,989,430	2,106,903	2,231,314
Transfer fees	808,024	815,853	823,758	831,740	839,799	847,936	856,152	864,447	872,823	881,280
Permit fees	4,850,038	5,024,769	5,205,840	5,393,413	5,587,745	5,789,080	5,997,688	6,213,772	6,437,883	6,669,821
Entertainment fees	850,813	848,240	841,889	837,191	832,713	828,268	823,853	819,470	815,117	810,795
Admin fees	1,718,772	1,888,784	1,859,339	1,830,397	1,801,980	1,574,019	1,540,568	1,519,591	1,493,087	1,467,045
Bond forfeiture	48,581	38,121	29,914	23,473	18,420	14,454	11,342	8,900	6,984	5,460
Franchise Fees	0	0	0	0	0	0	0	0	0	0
Franchise Royalty Fees	0	0	0	0	0	0	0	0	0	0
Interest Income	4,340,178	4,920,239	5,552,240	6,265,420	7,070,208	7,978,370	9,003,184	10,159,835	11,484,832	12,937,253
Enforcement fines	1,140,850	1,110,970	1,081,873	1,053,538	1,025,945	999,074	972,908	947,428	922,613	898,449
Miscellaneous revenue	1,230,439	1,325,066	1,428,908	1,539,843	1,658,390	1,786,219	1,927,049	2,076,857	2,237,881	2,411,821
<b>SUBTOTAL</b>	<b>\$22,139,117</b>	<b>\$22,981,018</b>	<b>\$23,918,875</b>	<b>\$24,958,497</b>	<b>\$26,111,047</b>	<b>\$27,393,188</b>	<b>\$28,817,227</b>	<b>\$30,399,329</b>	<b>\$32,157,702</b>	<b>\$34,112,858</b>
<b>TOTAL REVENUE</b>	<b>\$592,187,948</b>	<b>\$602,626,348</b>	<b>\$613,811,850</b>	<b>\$625,944,716</b>	<b>\$639,000,722</b>	<b>\$652,766,143</b>	<b>\$667,854,180</b>	<b>\$684,177,655</b>	<b>\$701,869,905</b>	<b>\$721,077,992</b>
<b>Operating Expenses</b>										
Cost of goods sold	426,303,819	433,408,734	441,011,464	449,177,808	457,981,814	467,424,663	477,835,583	488,873,027	500,826,019	513,595,882
Salaries and Benefits	0	0	0	0	0	0	0	0	0	0
Wage Employees	0	0	0	0	0	0	0	0	0	0
Salaried Employees	0	0	0	0	0	0	0	0	0	0
Management	0	0	0	0	0	0	0	0	0	0
Retail Agency Payments	0	0	0	0	0	0	0	0	0	0
Store Expenses	0	0	0	0	0	0	0	0	0	0
<b>SUBTOTAL</b>	<b>\$426,303,819</b>	<b>\$433,408,734</b>	<b>\$441,011,464</b>	<b>\$449,177,808</b>	<b>\$457,981,814</b>	<b>\$467,424,663</b>	<b>\$477,835,583</b>	<b>\$488,873,027</b>	<b>\$500,826,019</b>	<b>\$513,595,882</b>
<b>Agency Expenses</b>										
Stores and Purchasing Admin	1,898,193	1,726,374	1,755,663	1,766,125	1,817,830	1,850,851	1,885,266	1,921,158	1,958,615	1,997,732
Executive Expenses	1,114,855	1,153,581	1,193,916	1,235,715	1,279,033	1,323,929	1,370,482	1,418,895	1,468,694	1,520,528
Alcohol Education Expenses	866,000	891,980	918,739	946,302	974,891	1,003,931	1,034,049	1,065,071	1,097,023	1,129,934
Administration Expenses	20,208,038	20,458,130	20,728,838	21,023,840	21,340,922	21,681,958	22,047,932	22,439,939	22,859,193	23,307,039
Warehouse Contract	16,703,030	17,014,117	17,330,998	17,653,781	17,982,575	18,317,493	18,658,849	19,006,158	19,360,140	19,720,715
Police (Enforcement)	15,344,702	15,807,310	16,283,665	16,774,787	17,280,510	17,801,479	18,338,153	18,891,008	19,460,530	20,047,221
Other Agencies	2,100,000	1,750,000	1,350,000	1,000,000	1,030,000	1,060,900	1,092,727	1,125,509	1,159,274	1,194,052
Auditor General	4,823,138	4,823,138	4,823,138	4,823,138	4,823,138	4,823,138	4,823,138	4,823,138	4,823,138	4,823,138
Comptroller Operations	95,859	99,848	103,803	108,132	112,842	117,339	122,233	127,330	132,640	138,172
Treasury	48,580	47,085	47,595	48,111	48,633	49,160	49,693	50,232	50,778	51,327
General Services	105,724	109,264	112,922	116,704	120,611	124,650	128,824	133,137	137,595	142,203
Civil Service	45,830	45,759	45,889	46,019	46,149	46,280	46,411	46,543	46,675	46,807
Payroll Services	75,045	78,470	82,052	85,797	89,713	93,808	98,090	102,567	107,249	112,144
Office of Budget/Admin	20,784	18,839	17,068	15,463	14,008	12,892	11,499	10,417	9,438	8,551
Misc. Agencies	491,000	522,895	558,438	592,355	630,593	671,299	714,833	760,764	809,873	862,152
<b>SUBTOTAL</b>	<b>\$63,538,186</b>	<b>\$64,346,388</b>	<b>\$65,151,820</b>	<b>\$66,050,289</b>	<b>\$67,391,049</b>	<b>\$68,776,908</b>	<b>\$70,221,750</b>	<b>\$71,721,687</b>	<b>\$73,280,854</b>	<b>\$74,901,712</b>
<b>Privatization Transition Costs and Revenues</b>										
Proceeds from Warehouse and Inventory	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Sick and Annual Leave Payout	\$9,941,935	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Transition Store Expenses	\$10,252,120	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unemployment Payment Costs	\$10,589,800	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>SUBTOTAL</b>	<b>\$30,783,681</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>TOTAL EXPENSES</b>	<b>\$520,605,868</b>	<b>\$497,755,122</b>	<b>\$508,163,404</b>	<b>\$515,234,077</b>	<b>\$525,352,863</b>	<b>\$536,203,571</b>	<b>\$547,657,342</b>	<b>\$560,394,894</b>	<b>\$573,906,873</b>	<b>\$588,497,405</b>
<b>Drug and Alcohol Program</b>	<b>\$1,309,144</b>	<b>\$1,346,410</b>	<b>\$1,388,871</b>	<b>\$1,430,537</b>	<b>\$1,473,454</b>	<b>\$1,517,657</b>	<b>\$1,563,187</b>	<b>\$1,610,083</b>	<b>\$1,658,385</b>	<b>\$1,708,137</b>
<b>TOTAL PROFIT</b>	<b>\$70,272,937</b>	<b>\$103,522,805</b>	<b>\$108,260,574</b>	<b>\$109,178,101</b>	<b>\$111,970,405</b>	<b>\$115,044,912</b>	<b>\$118,433,651</b>	<b>\$122,172,860</b>	<b>\$126,303,648</b>	<b>\$130,872,451</b>

## Appendix II

Financial projections subject to the provisions contained in the inside cover page of this report.

## State Transfers License System - High Control

<b>Transfers to the Commonwealth</b>		Forecast 1997	Forecast 1998	Forecast 1999	Forecast 2000	Forecast 2001	Forecast 2002	Forecast 2003	Forecast 2004	Forecast 2005	Forecast 2006
<b>Taxes</b>											
Liquor Tax		101,305,440	102,992,211	104,795,463	106,730,539	108,809,928	111,047,740	113,459,930	116,064,574	118,882,168	121,935,985
Gallage Tax		0	0	0	0	0	0	0	0	0	0
Sales Tax		50,769,954	51,619,370	52,527,405	53,501,781	54,548,789	55,675,531	56,890,041	58,201,419	59,619,986	61,157,457
Corporate Income Tax		0	0	0	0	0	0	0	0	0	0
Tax Enforcement		-528,953	-532,973	-537,270	-541,881	-546,836	-552,168	-557,918	-564,122	-570,836	-578,112
Police (Enforcement)		15,344,702	15,807,310	16,283,865	16,774,787	17,280,510	17,801,479	18,338,153	18,891,008	19,460,530	20,047,221
Drug and Alcohol Program		1,309,144	1,348,419	1,388,871	1,430,537	1,473,454	1,517,657	1,563,187	1,610,083	1,658,385	1,708,137
Profit Transfer to General Fund		70,272,937	103,522,805	106,260,574	109,178,101	111,970,405	115,044,912	118,433,651	122,172,880	126,303,648	130,872,451
IPO Proceeds		0									
Shifted Benefits Cost											
Annuitants Hospitalization		-3,983,355	-4,080,538	-4,180,134	-4,282,203	-4,388,808	-4,494,013	-4,603,883	-4,716,485	-4,831,889	-4,950,166
Civil Service		-599,100	-619,161	-639,893	-661,320	-683,464	-706,349	-730,001	-754,445	-779,707	-805,818
Payroll		-258,568	-259,301	-260,036	-260,773	-261,513	-262,254	-262,998	-263,743	-264,491	-265,241
Regulatory Costs		0	0	0	0	0	0	0	0	0	0
<b>TOTAL: Commonwealth Transfers</b>		<b>233,632,203</b>	<b>269,798,143</b>	<b>275,638,845</b>	<b>281,869,569</b>	<b>288,204,466</b>	<b>295,072,533</b>	<b>302,530,165</b>	<b>310,641,168</b>	<b>319,477,793</b>	<b>329,121,917</b>
<b>Transfers to Local Government</b>											
Local Sales Tax		2,623,114	2,667,001	2,713,916	2,764,259	2,818,354	2,876,569	2,939,319	3,007,073	3,080,366	3,159,802
License Fees to Municipalities		4,725,276	4,682,685	4,640,479	4,598,652	4,557,203	4,516,128	4,475,422	4,435,084	4,395,109	4,355,494
<b>TOTAL: Local Government Transfers</b>		<b>7,348,390</b>	<b>7,349,686</b>	<b>7,354,395</b>	<b>7,362,911</b>	<b>7,375,557</b>	<b>7,392,697</b>	<b>7,414,741</b>	<b>7,442,157</b>	<b>7,475,475</b>	<b>7,515,296</b>

## Retail License System - Price Neutral

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### Descriptive Statistics:

Liquor Excise Tax:	18%
Wholesale Markup:	25% w, 18% sp
Expected Retail Markup:	27% w, 23% sp
Expected Number of Retail Outlets:	665

### Selected Economic Impacts

Average Impact on Spirits Prices (1st Year):	0.11%
Average Impact on Wine Prices (1st Year):	-0.50%
"Up Front" Revenues:	\$0

### Revenue to Commonwealth Government - Scenario vs. Baseline (\$millions)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	10-yr Sum
Scenario	\$216.88	\$253.07	\$258.93	\$265.17	\$271.52	\$278.39	\$285.85	\$293.96	\$302.79	\$312.43	<b>\$2,739.00</b>
Baseline:	\$240.02	\$241.44	\$243.16	\$245.17	\$247.18	\$249.61	\$252.51	\$255.94	\$259.98	\$264.69	<b>\$2,499.71</b>
Differenc	(\$23.14)	\$11.63	\$15.76	\$20.00	\$24.34	\$28.79	\$33.34	\$38.02	\$42.82	\$47.74	<b>\$239.30</b>



# Privatization Analysis of the Pennsylvania Wine and Spirits Industry

## PLCB Summary

### License System - Price Neutral

Operating Revenue	Forecast 1997	Forecast 1998	Forecast 1999	Forecast 2000	Forecast 2001	Forecast 2002	Forecast 2003	Forecast 2004	Forecast 2005	Forecast 2006
<b>Liquor</b>										
License Sales	105,588,417	105,851,128	106,126,034	106,411,143	106,706,453	107,011,968	107,327,800	107,653,623	107,989,772	108,336,143
Retail Sales	238,488,777	238,076,170	237,995,233	237,339,683	237,011,179	236,709,516	236,434,433	236,185,693	235,963,076	235,766,375
LESS: Pass-through Discounts	6,144,730	6,141,276	6,138,710	6,137,051	6,136,266	6,136,357	6,137,319	6,139,146	6,141,634	6,145,377
<b>Wine</b>										
License Sales	37,924,077	39,260,510	40,647,729	42,092,023	43,595,936	45,162,125	46,793,373	48,492,586	50,262,810	52,107,220
Retail Sales	164,071,151	160,376,249	160,822,761	203,590,912	210,642,820	217,990,488	225,647,647	233,027,887	241,845,650	250,816,066
LESS: Pass-through Discounts	5,254,930	5,434,832	5,621,251	5,815,851	6,016,174	6,229,182	6,446,051	6,676,177	6,916,973	7,165,874
Bottle Pick	7,240,829	7,466,360	7,696,958	7,936,780	8,186,073	8,441,066	8,704,007	8,975,137	9,254,712	9,542,966
Special Order	16,156,675	16,462,089	21,144,694	24,195,213	27,690,826	31,097,251	36,280,010	41,555,936	47,594,869	54,521,633
<b>SUBTOTAL</b>	<b>\$576,066,466</b>	<b>\$585,886,817</b>	<b>\$596,375,459</b>	<b>\$607,615,032</b>	<b>\$619,676,857</b>	<b>\$632,846,860</b>	<b>\$646,610,791</b>	<b>\$661,673,840</b>	<b>\$677,952,081</b>	<b>\$695,579,182</b>
<b>Agency Revenue</b>										
License Fees	3,325,000	3,325,000	3,325,000	3,325,000	3,325,000	3,325,000	3,325,000	3,325,000	3,325,000	3,325,000
Retail License fees	0	0	0	0	0	0	0	0	0	0
Wholesale License fees	1,331,424	1,410,043	1,493,305	1,581,483	1,674,866	1,773,767	1,876,506	1,980,430	2,106,903	2,231,314
Application fees	806,024	815,653	823,756	831,740	839,769	847,936	856,152	864,447	872,823	881,280
Transfer fees	4,850,036	5,024,769	5,205,840	5,393,413	5,587,745	5,789,080	5,997,688	6,213,772	6,437,803	6,669,821
Entertainment fees	650,613	646,240	641,689	637,191	632,713	628,268	623,853	619,470	615,117	610,795
Admin fees	1,716,772	1,868,794	1,959,339	1,930,397	1,901,960	1,874,019	1,846,566	1,819,591	1,793,087	1,767,045
Bond forfeiture	46,581	36,121	29,914	23,473	16,420	14,454	11,342	6,900	6,984	5,480
Franchise Fees	0	0	0	0	0	0	0	0	0	0
Franchise Royalty Fees	0	0	0	0	0	0	0	0	0	0
Interest Income	4,340,176	4,920,239	5,552,240	6,265,420	7,070,206	7,976,370	9,003,164	10,159,635	11,464,832	12,837,253
Enforcement fines	1,140,650	1,110,970	1,081,973	1,053,536	1,025,945	999,074	972,906	947,426	922,613	898,449
Miscellaneous revenue	1,230,439	1,325,068	1,426,806	1,536,643	1,659,300	1,786,219	1,927,049	2,076,657	2,237,861	2,411,621
<b>SUBTOTAL</b>	<b>\$19,464,117</b>	<b>\$20,306,016</b>	<b>\$21,241,075</b>	<b>\$22,261,497</b>	<b>\$23,436,047</b>	<b>\$24,716,186</b>	<b>\$26,142,227</b>	<b>\$27,724,329</b>	<b>\$29,482,702</b>	<b>\$31,437,856</b>
<b>TOTAL REVENUE</b>	<b>\$595,532,583</b>	<b>\$606,194,833</b>	<b>\$617,617,334</b>	<b>\$629,876,530</b>	<b>\$643,114,705</b>	<b>\$657,563,046</b>	<b>\$672,753,018</b>	<b>\$689,398,169</b>	<b>\$707,434,783</b>	<b>\$727,017,040</b>
<b>Operating Expenses</b>										
Cost of goods sold	446,673,702	456,261,987	464,167,210	472,656,676	481,786,884	491,620,919	502,231,457	513,699,990	526,119,215	539,594,444
Salaries and Benefits	0	0	0	0	0	0	0	0	0	0
Wage Employees	0	0	0	0	0	0	0	0	0	0
Salaried Employees	0	0	0	0	0	0	0	0	0	0
Management	0	0	0	0	0	0	0	0	0	0
Retail Agency Payments	0	0	0	0	0	0	0	0	0	0
Store Expenses	0	0	0	0	0	0	0	0	0	0
<b>SUBTOTAL</b>	<b>\$446,673,702</b>	<b>\$456,261,987</b>	<b>\$464,167,210</b>	<b>\$472,656,676</b>	<b>\$481,786,884</b>	<b>\$491,620,919</b>	<b>\$502,231,457</b>	<b>\$513,699,990</b>	<b>\$526,119,215</b>	<b>\$539,594,444</b>
<b>Agency Expenses</b>										
Stores and Purchasing Admin	1,606,193	1,726,374	1,755,863	1,786,125	1,817,830	1,850,651	1,885,266	1,921,156	1,958,615	1,997,732
Executive Expenses	1,114,655	1,153,591	1,193,916	1,235,715	1,279,033	1,323,929	1,370,462	1,418,695	1,468,694	1,520,526
Alcohol Education Expenses	866,000	891,980	916,739	946,302	974,891	1,003,931	1,034,049	1,065,071	1,097,023	1,129,934
Administration Expenses	19,893,297	20,144,146	20,416,423	20,710,783	21,026,006	21,368,976	21,734,662	22,126,213	22,544,769	22,991,757
Warehouse Contract	15,184,573	15,467,379	15,755,453	16,046,891	16,347,795	16,652,266	16,962,408	17,276,326	17,600,127	17,927,922
Police (Enforcement)	15,344,702	15,807,310	16,263,665	16,774,767	17,280,510	17,801,479	18,336,153	18,891,008	19,460,530	20,047,221
Other Agencies	2,100,000	1,750,000	1,350,000	1,000,000	1,030,000	1,060,900	1,092,727	1,125,509	1,159,274	1,194,052
Auditor General	4,623,136	4,623,136	4,623,136	4,623,136	4,623,136	4,623,136	4,623,136	4,623,136	4,623,136	4,623,136
Comptroller Operations	95,659	99,846	103,803	108,132	112,642	117,339	122,233	127,330	132,640	138,172
Treasury	46,560	47,085	47,595	48,111	48,633	49,160	49,693	50,232	50,776	51,327
General Services	105,724	109,264	112,922	116,704	120,611	124,650	128,824	133,137	137,595	142,203
Civil Service	45,630	45,759	45,889	46,019	46,149	46,280	46,411	46,543	46,675	46,807
Payroll Services	75,045	76,470	77,942	79,467	81,040	82,663	84,336	86,060	87,834	89,658
Office of Budget/Admin	20,764	18,839	17,068	15,463	14,009	12,892	11,490	10,417	9,438	8,551
Misc. Agencies	491,000	522,695	556,436	592,355	630,503	671,269	714,633	760,764	809,873	862,152
<b>SUBTOTAL</b>	<b>\$61,704,958</b>	<b>\$62,485,887</b>	<b>\$63,262,902</b>	<b>\$64,138,323</b>	<b>\$65,443,358</b>	<b>\$66,800,702</b>	<b>\$68,212,208</b>	<b>\$69,680,108</b>	<b>\$71,206,437</b>	<b>\$72,793,838</b>
<b>Privatization Transition Costs and Revenues</b>										
Proceeds from Warehouse and Inventory	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Sick and Annual Leave Payout	\$9,941,935	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Transition Store Expenses	\$10,252,126	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unemployment Payment Costs	\$10,669,800	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>SUBTOTAL</b>	<b>\$30,763,861</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>TOTAL EXPENSES</b>	<b>\$541,342,520</b>	<b>\$516,747,854</b>	<b>\$527,430,161</b>	<b>\$536,794,999</b>	<b>\$547,230,040</b>	<b>\$558,421,621</b>	<b>\$570,443,725</b>	<b>\$583,380,098</b>	<b>\$597,325,652</b>	<b>\$612,388,082</b>
<b>Drug and Alcohol Program</b>	<b>\$1,309,144</b>	<b>\$1,348,419</b>	<b>\$1,386,871</b>	<b>\$1,430,537</b>	<b>\$1,473,454</b>	<b>\$1,517,657</b>	<b>\$1,563,167</b>	<b>\$1,610,093</b>	<b>\$1,658,365</b>	<b>\$1,708,137</b>
<b>TOTAL PROFIT</b>	<b>\$32,880,919</b>	<b>\$88,998,560</b>	<b>\$89,796,282</b>	<b>\$91,670,994</b>	<b>\$94,411,211</b>	<b>\$97,425,767</b>	<b>\$100,746,106</b>	<b>\$104,407,686</b>	<b>\$108,450,746</b>	<b>\$112,920,821</b>

## Appendix II

Financial projections subject to the provisions contained in the inside cover page of this report.

## State Transfers

License System - Price  
Neutral

Transfers to the Commonwealth		Forecast 1997	Forecast 1998	Forecast 1999	Forecast 2000	Forecast 2001	Forecast 2002	Forecast 2003	Forecast 2004	Forecast 2005	Forecast 2006
<b>Taxes</b>											
Liquor Tax		102,388,975	104,116,003	105,961,770	107,941,725	110,068,665	112,357,046	114,823,221	117,485,713	120,365,526	123,486,514
Galloneage Tax		0	0	0	0	0	0	0	0	0	0
Sales Tax		50,195,351	51,058,462	51,980,783	52,970,032	54,032,601	55,175,713	56,407,537	57,737,327	59,175,576	60,734,199
Corporate Income Tax		0	0	0	0	0	0	0	0	0	0
Tax Enforcement		-397,529	-401,613	-405,978	-410,660	-415,688	-421,098	-426,928	-433,221	-440,027	-447,404
Police (Enforcement)		15,344,702	15,807,310	16,283,865	16,774,787	17,280,510	17,801,479	18,338,153	18,891,008	19,460,530	20,047,221
Drug and Alcohol Program		1,309,144	1,348,419	1,388,871	1,430,537	1,473,454	1,517,657	1,563,187	1,610,083	1,658,385	1,708,137
Profit Transfer to General Fund		52,880,919	86,098,560	88,798,282	91,670,994	94,411,211	97,425,787	100,746,106	104,407,688	108,450,746	112,920,821
IPO Proceeds		0									
Shifted Benefits Cost											
Annuitants Hospitalization		-3,983,355	-4,080,538	-4,180,134	-4,282,203	-4,386,808	-4,494,013	-4,603,883	-4,716,485	-4,831,889	-4,950,166
Civil Service		-599,100	-619,161	-639,893	-661,320	-683,464	-706,349	-730,001	-754,445	-779,707	-805,816
Payroll		-256,568	-259,301	-260,036	-260,773	-261,513	-262,254	-262,998	-263,743	-264,491	-265,241
Regulatory Costs		0	0	0	0	0	0	0	0	0	0
<b>TOTAL: Commonwealth Transfers</b>		216,880,539	253,068,141	258,927,531	265,173,120	271,518,967	278,393,967	285,854,395	293,963,923	302,794,647	312,428,266
<b>Transfers to Local Government</b>											
Local Sales Tax		2,593,426	2,638,021	2,685,674	2,736,785	2,791,684	2,850,745	2,914,389	2,983,095	3,057,405	3,137,934
License Fees to Municipalities		4,725,276	4,682,685	4,640,479	4,598,652	4,557,203	4,516,128	4,475,422	4,435,084	4,395,109	4,355,494
<b>TOTAL: Local Government Transfers</b>		7,318,702	7,320,706	7,326,152	7,335,437	7,348,888	7,366,873	7,389,812	7,418,179	7,452,514	7,493,428

## Retail Franchise System - Low Markup

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### Descriptive Statistics:

Liquor Excise Tax:	18%
Wholesale Markup:	8%
Expected Retail Markup:	25%
Expected Number of Retail Outlets:	665

### Selected Economic Impacts

Average Impact on Spirits Prices (1st Year):	-6.89%
Average Impact on Wine Prices (1st Year):	-15.39%
"Up Front" Revenues:	\$198 million

### Revenue to Commonwealth Government - Scenario vs. Baseline (\$millions)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	10-yr Sum
Scenario	\$350.42	\$186.87	\$191.36	\$196.14	\$200.91	\$206.08	\$211.71	\$217.83	\$224.51	\$231.81	\$2,217.64
Baseline:	\$240.02	\$241.44	\$243.16	\$245.17	\$247.18	\$249.61	\$252.51	\$255.94	\$259.98	\$264.69	\$2,499.71
Differenc	\$110.39	(\$54.57)	(\$51.80)	(\$49.03)	(\$46.27)	(\$43.53)	(\$40.80)	(\$38.11)	(\$35.47)	(\$32.88)	(\$282.07)



# Privatization Analysis of the Pennsylvania Wine and Spirits Industry

## PLWD Summary:

Franchise System - Low Markup	Forecast 1997	Forecast 1998	Forecast 1999	Forecast 2000	Forecast 2001	Forecast 2002	Forecast 2003	Forecast 2004	Forecast 2005	Forecast 2006
<b>Operating Revenue</b>										
Liquor										
License Sales	101,770,366	102,059,661	102,347,696	102,640,472	102,934,904	103,273,293	103,601,283	103,939,060	104,266,800	104,643,909
Retail Sales	229,669,764	229,548,235	228,232,716	226,942,933	226,076,619	226,439,535	226,225,453	226,036,182	227,871,459	227,731,156
LESS: Pass-through Discounts	7,651,061	7,640,588	7,646,061	7,649,174	7,650,221	7,652,095	7,654,792	7,656,307	7,662,835	7,667,772
Wine										
License Sales	36,023,399	37,326,184	38,660,225	40,090,765	41,500,325	43,091,539	44,667,182	46,350,078	48,063,293	49,869,962
Retail Sales	174,845,077	180,949,067	187,293,612	193,911,216	200,607,161	207,996,092	215,491,046	223,305,882	231,454,302	239,951,892
LESS: Pass-through Discounts	4,991,564	5,166,673	5,349,161	5,536,146	5,737,169	5,943,567	6,156,774	6,363,120	6,617,037	6,860,953
Bottle Pick	7,240,829	7,466,380	7,698,958	7,936,780	8,186,073	8,441,086	8,704,007	8,975,137	9,254,712	9,542,996
Special Order	14,996,776	17,171,215	19,661,152	22,516,267	25,790,743	29,546,897	33,656,411	38,601,763	44,477,661	50,993,944
<b>SUBTOTAL</b>	<b>\$551,635,389</b>	<b>\$581,503,280</b>	<b>\$571,716,438</b>	<b>\$582,658,113</b>	<b>\$594,390,524</b>	<b>\$606,992,711</b>	<b>\$620,551,709</b>	<b>\$635,166,453</b>	<b>\$650,946,555</b>	<b>\$668,025,135</b>
<b>Agency Revenue</b>										
License Fees										
Retail License fees	665,000	665,000	665,000	665,000	665,000	665,000	665,000	665,000	665,000	665,000
Wholesale License fees	0	0	0	0	0	0	0	0	0	0
Application fees	1,331,424	1,410,043	1,493,305	1,581,483	1,674,068	1,773,767	1,876,506	1,989,430	2,108,903	2,231,314
Transfer fees	608,024	615,653	623,758	631,740	639,789	647,938	656,152	664,447	672,823	681,280
Permit fees	4,950,036	5,024,769	5,203,640	5,393,413	5,587,745	5,789,080	5,997,868	6,213,772	6,437,863	6,669,621
Entertainment fees	650,613	646,240	641,669	637,191	632,713	628,266	623,853	619,470	615,117	610,795
Admin fees	1,716,772	1,686,784	1,656,339	1,630,397	1,601,960	1,574,019	1,546,566	1,519,591	1,493,087	1,467,045
Bond forfeiture	46,561	36,121	26,914	23,473	16,420	14,454	11,342	8,900	6,964	5,460
Franchise Fees	198,452,906	0	0	0	0	0	0	0	0	0
Franchise Royalty Fees	0	0	0	0	0	0	0	0	0	0
Interest Income	4,360,176	4,920,239	5,552,240	6,265,420	7,070,208	7,976,370	9,003,164	10,159,835	11,464,632	12,937,253
Enforcement fines	1,166,032	1,154,969	1,124,719	1,095,262	1,068,576	1,036,642	1,011,439	984,946	959,152	934,031
Miscellaneous revenue	1,230,439	1,325,966	1,426,908	1,539,843	1,659,390	1,786,219	1,927,049	2,076,657	2,237,661	2,411,621
<b>SUBTOTAL</b>	<b>\$215,302,208</b>	<b>\$17,680,015</b>	<b>\$16,624,722</b>	<b>\$16,663,222</b>	<b>\$20,616,679</b>	<b>\$22,097,753</b>	<b>\$23,520,756</b>	<b>\$25,101,851</b>	<b>\$26,659,241</b>	<b>\$28,613,440</b>
<b>TOTAL REVENUE</b>	<b>\$767,237,595</b>	<b>\$578,193,296</b>	<b>\$590,343,160</b>	<b>\$602,321,335</b>	<b>\$615,207,203</b>	<b>\$629,090,464</b>	<b>\$644,072,557</b>	<b>\$660,268,304</b>	<b>\$677,607,796</b>	<b>\$696,638,574</b>
<b>Operating Expenses</b>										
Cost of goods sold	460,651,592	468,961,171	497,669,126	507,445,475	517,712,551	526,760,626	540,670,072	553,530,896	567,445,316	582,530,523
Galleries and Benefits	0	0	0	0	0	0	0	0	0	0
Wage Employees	0	0	0	0	0	0	0	0	0	0
Salaries Employees	0	0	0	0	0	0	0	0	0	0
Management	0	0	0	0	0	0	0	0	0	0
Retail Agency Payments	0	0	0	0	0	0	0	0	0	0
Store Expenses	0	0	0	0	0	0	0	0	0	0
<b>SUBTOTAL</b>	<b>\$460,651,592</b>	<b>\$468,961,171</b>	<b>\$497,669,126</b>	<b>\$507,445,475</b>	<b>\$517,712,551</b>	<b>\$526,760,626</b>	<b>\$540,670,072</b>	<b>\$553,530,896</b>	<b>\$567,445,316</b>	<b>\$582,530,523</b>
<b>Agency Expenses</b>										
Stores and Purchasing Admin	1,896,193	1,726,374	1,755,663	1,786,125	1,817,630	1,850,851	1,885,268	1,921,158	1,958,615	1,997,732
Executive Expenses	1,114,655	1,153,561	1,193,916	1,235,715	1,278,033	1,323,929	1,370,462	1,418,695	1,468,694	1,520,526
Alcohol Education Expenses	868,000	891,980	916,739	946,302	974,661	1,003,931	1,034,049	1,065,071	1,097,023	1,129,934
Administration Expenses	19,961,463	20,215,377	20,460,600	20,766,446	21,109,102	21,453,656	21,823,099	22,216,536	22,641,191	23,092,416
Warehouse Contract	15,164,573	15,467,379	15,755,453	16,046,691	16,347,795	16,652,266	16,962,408	17,276,326	17,600,127	17,927,922
Police (Enforcement)	15,952,413	16,433,342	16,926,771	17,439,135	17,964,866	18,506,466	19,064,417	19,639,167	20,231,244	20,841,170
Other Agencies										
Auditor General	2,100,000	1,750,000	1,350,000	1,000,000	1,030,000	1,080,900	1,092,727	1,125,509	1,159,274	1,194,052
Comptroller Operations	4,623,136	4,623,136	4,623,136	4,623,136	4,623,136	4,623,136	4,623,136	4,623,136	4,623,136	4,623,136
Treasury	95,659	99,646	103,603	106,132	112,842	117,339	122,233	127,330	132,640	138,172
General Services	48,580	47,085	47,595	48,111	48,633	49,160	49,693	50,232	50,776	51,327
Civil Service	105,724	109,264	112,922	116,704	120,611	124,650	128,824	133,137	137,595	142,203
Payroll Services	45,030	45,759	46,689	47,619	48,549	49,479	50,409	51,339	52,269	53,199
Office of Budget/Admin	75,045	76,470	82,052	85,797	89,713	93,808	98,090	102,567	107,249	112,144
Misc. Agencies	20,764	16,639	17,068	15,483	14,006	12,692	11,409	10,417	9,436	8,551
BMS Services	491,000	522,695	556,436	592,355	630,593	671,299	714,633	760,784	809,673	862,152
<b>SUBTOTAL</b>	<b>\$62,360,665</b>	<b>\$63,162,929</b>	<b>\$63,982,245</b>	<b>\$64,880,334</b>	<b>\$66,206,827</b>	<b>\$67,590,388</b>	<b>\$69,026,949</b>	<b>\$70,520,590</b>	<b>\$72,073,553</b>	<b>\$73,686,246</b>
<b>Privatization Transition Costs and Revenues</b>										
Proceeds from Warehouse and Inventory	0	0	0	0	0	0	0	0	0	0
Sick and Annual Leave Payout	0	0	0	0	0	0	0	0	0	0
Transition Store Expenses	0	0	0	0	0	0	0	0	0	0
Unemployment Payment Costs	0	0	0	0	0	0	0	0	0	0
<b>SUBTOTAL</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>TOTAL EXPENSES</b>	<b>\$523,012,257</b>	<b>\$532,124,100</b>	<b>\$561,651,372</b>	<b>\$572,325,606</b>	<b>\$583,921,376</b>	<b>\$596,351,215</b>	<b>\$609,697,021</b>	<b>\$624,051,269</b>	<b>\$639,518,871</b>	<b>\$656,218,771</b>
<b>Drug and Alcohol Program</b>	<b>\$1,309,144</b>	<b>\$1,346,419</b>	<b>\$1,386,671</b>	<b>\$1,430,537</b>	<b>\$1,473,454</b>	<b>\$1,517,657</b>	<b>\$1,563,167</b>	<b>\$1,610,083</b>	<b>\$1,658,365</b>	<b>\$1,708,137</b>
<b>TOTAL PROFIT</b>	<b>\$192,132,113</b>	<b>\$28,680,777</b>	<b>\$27,082,917</b>	<b>\$26,564,986</b>	<b>\$29,612,371</b>	<b>\$31,221,561</b>	<b>\$32,612,350</b>	<b>\$34,606,932</b>	<b>\$36,630,540</b>	<b>\$38,911,666</b>

## Appendix II

Financial projections subject to the provisions contained in the inside cover page of this report.



**State Transfers**  
Franchise System - Low  
Markup

Transfers to the Commonwealth	Forecast 1997	Forecast 1998	Forecast 1999	Forecast 2000	Forecast 2001	Forecast 2002	Forecast 2003	Forecast 2004	Forecast 2005	Forecast 2006
<b>Taxes</b>										
Liquor Tax	98,045,021	99,726,642	101,523,507	103,449,480	105,516,801	107,739,296	110,132,603	112,714,437	115,504,892	118,526,785
Galloneage Tax	0	0	0	0	0	0	0	0	0	0
Sales Tax	48,205,469	49,032,266	49,915,724	50,862,661	51,879,094	52,971,820	54,148,530	55,417,931	56,789,905	58,275,669
Corporate Income Tax	0	0	0	0	0	0	0	0	0	0
Tax Enforcement	-388,111	-392,024	-396,205	-400,687	-405,497	-410,668	-416,237	-422,244	-428,737	-435,769
Police (Enforcement)	15,952,413	16,433,342	16,928,771	17,439,135	17,964,886	18,506,488	19,064,417	19,639,167	20,231,244	20,841,170
Drug and Alcohol Program	1,309,144	1,348,419	1,388,871	1,430,537	1,473,454	1,517,657	1,563,187	1,610,083	1,658,385	1,708,137
Profit Transfer to General Fund	192,132,113	25,680,777	27,082,917	28,564,989	29,812,371	31,221,591	32,812,350	34,606,932	36,630,540	38,911,666
IPO Proceeds	0									
Shifted Benefits Cost										
Annuityants Hospitalization	-3,983,355	-4,080,538	-4,180,134	-4,282,203	-4,386,808	-4,494,013	-4,603,883	-4,716,485	-4,831,889	-4,950,166
Civil Service	-599,100	-619,161	-639,893	-661,320	-683,464	-706,349	-730,001	-754,445	-779,707	-805,816
Payroll	-258,568	-259,301	-260,036	-260,773	-261,513	-262,254	-262,998	-263,743	-264,491	-265,241
Regulatory Costs	0	0	0	0	0	0	0	0	0	0
<b>TOTAL: Commonwealth Transfers</b>	<b>350,415,025</b>	<b>186,870,421</b>	<b>191,363,521</b>	<b>196,141,820</b>	<b>200,909,325</b>	<b>206,083,568</b>	<b>211,707,967</b>	<b>217,831,632</b>	<b>224,510,140</b>	<b>231,806,437</b>
<b>Transfers to Local Government</b>										
Local Sales Tax	2,490,616	2,533,334	2,578,979	2,627,904	2,680,420	2,736,877	2,797,674	2,863,260	2,934,145	3,010,910
License Fees to Municipalities	4,725,276	4,682,685	4,640,479	4,598,652	4,557,203	4,516,128	4,475,422	4,435,084	4,395,109	4,355,494
<b>TOTAL: Local Government Transfers</b>	<b>7,215,892</b>	<b>7,216,019</b>	<b>7,219,458</b>	<b>7,226,557</b>	<b>7,237,623</b>	<b>7,253,005</b>	<b>7,273,096</b>	<b>7,298,344</b>	<b>7,329,254</b>	<b>7,366,404</b>

## Retail Franchise System - Medium Markup (665)

### Descriptive Statistics:

### Selected Economic Impacts

Liquor Excise Tax:	18%	Average Impact on Spirits Prices (1st Year):	1.74%
Wholesale Markup:	18%	Average Impact on Wine Prices (1st Year):	-7.55%
Expected Retail Markup:	25%	"Up Front" Revenues:	\$198 million
Expected Number of Retail Outlets:	665		

### Revenue to Commonwealth Government - Scenario vs. Baseline (\$millions)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	10-yr Sum
Scenario	\$398.88	\$236.11	\$241.44	\$247.11	\$252.84	\$259.05	\$265.80	\$273.14	\$281.13	\$289.86	\$2,745.36
Baseline:	\$240.02	\$241.44	\$243.16	\$245.17	\$247.18	\$249.61	\$252.51	\$255.94	\$259.98	\$264.69	\$2,499.71
Differenc	\$158.86	(\$5.33)	(\$1.73)	\$1.94	\$5.66	\$9.45	\$13.29	\$17.19	\$21.16	\$25.17	\$245.66

PLCB Summary: Franchise System - Medium Markup (885)										
Operating Revenue	Forecast 1997	Forecast 1998	Forecast 1999	Forecast 2000	Forecast 2001	Forecast 2002	Forecast 2003	Forecast 2004	Forecast 2005	Forecast 2006
Liquor										
License Sales	104,279,116	104,534,411	104,799,803	105,076,292	105,360,879	105,656,566	105,962,357	106,278,254	106,604,282	106,940,388
Retail Sales	235,535,966	235,116,642	234,724,813	234,380,177	234,022,454	233,711,361	233,426,712	233,166,214	232,935,668	232,728,864
LESS: Pass-through Discounts	6,043,667	6,040,004	6,037,011	6,034,901	6,033,667	6,033,303	6,033,903	6,035,161	6,037,374	6,040,435
Wine										
License Sales	37,465,967	36,624,212	40,214,216	41,661,619	43,169,567	44,740,207	46,376,484	48,081,357	49,857,893	51,709,304
Retail Sales	181,944,708	186,211,172	194,723,643	201,510,097	208,562,640	215,953,954	223,637,320	231,646,656	239,996,539	248,702,242
LESS: Pass-through Discounts	5,194,224	5,374,238	5,561,300	5,766,211	5,959,319	6,170,987	6,391,544	6,621,544	6,861,250	7,111,152
Bottle Pick	7,240,629	7,466,380	7,698,956	7,938,760	8,186,073	8,441,066	8,704,007	8,975,137	9,254,712	9,542,996
Special Order	15,480,389	17,717,731	20,261,268	23,220,068	26,589,609	30,453,616	34,886,174	39,971,214	45,806,191	52,503,023
SUBTOTAL	\$508,726,644	\$578,456,307	\$586,844,419	\$598,975,120	\$611,916,255	\$624,752,702	\$636,567,656	\$653,464,126	\$669,556,640	\$686,975,230
Agency Revenue										
License Fees	665,000	665,000	665,000	665,000	665,000	665,000	665,000	665,000	665,000	665,000
Retail License fees	0	0	0	0	0	0	0	0	0	0
Wholesale License fees	1,331,424	1,410,043	1,493,305	1,581,463	1,674,866	1,773,767	1,878,506	1,989,430	2,106,903	2,231,314
Application fees	806,024	815,653	823,756	831,740	839,769	847,936	856,152	864,447	872,823	881,280
Transfer fees	4,850,036	5,024,789	5,205,840	5,393,413	5,587,745	5,789,090	5,997,666	6,213,772	6,437,663	6,669,621
Permit fees	850,813	848,240	841,699	837,191	832,713	828,268	823,853	819,470	815,117	810,795
Entertainment fees	1,716,772	1,688,764	1,659,339	1,630,397	1,601,960	1,574,019	1,546,566	1,519,591	1,493,087	1,467,045
Admin fees	48,561	36,121	29,914	23,473	16,420	14,454	11,342	8,900	6,984	5,480
Bond forfeiture	196,452,906	0	0	0	0	0	0	0	0	0
Franchise Fees	0	0	0	0	0	0	0	0	0	0
Franchise Royalty Fees	0	0	0	0	0	0	0	0	0	0
Interest Income	4,360,176	4,920,239	5,552,240	6,265,420	7,070,206	7,976,370	9,003,184	10,159,635	11,464,632	12,937,253
Enforcement fines	1,166,032	1,154,969	1,124,719	1,095,262	1,066,576	1,038,842	1,011,439	984,946	959,152	934,031
Miscellaneous revenue	1,250,439	1,325,966	1,426,908	1,639,843	1,859,390	2,095,219	2,357,049	2,676,657	3,076,661	3,541,821
SUBTOTAL	\$215,302,206	\$17,690,015	\$16,824,722	\$19,663,222	\$20,618,678	\$22,097,753	\$23,520,758	\$25,101,951	\$26,859,241	\$28,813,440
TOTAL REVENUE	\$784,031,050	\$596,146,322	\$607,669,141	\$619,638,341	\$632,734,934	\$646,850,455	\$660,088,415	\$678,565,976	\$696,415,881	\$715,788,670
Operating Expenses										
Cost of goods sold	453,482,297	481,237,334	489,532,884	476,436,661	486,007,892	498,311,416	509,422,764	521,426,544	534,416,817	548,508,651
Salaries and Benefits	0	0	0	0	0	0	0	0	0	0
Wage Employees	0	0	0	0	0	0	0	0	0	0
Salaried Employees	0	0	0	0	0	0	0	0	0	0
Management	0	0	0	0	0	0	0	0	0	0
Retail Agency Payments	0	0	0	0	0	0	0	0	0	0
Store Expenses	0	0	0	0	0	0	0	0	0	0
SUBTOTAL	\$453,482,297	\$481,237,334	\$489,532,884	\$476,436,661	\$486,007,892	\$498,311,416	\$509,422,764	\$521,426,544	\$534,416,817	\$548,508,651
Agency Expenses										
Stores and Purchasing Admin	1,006,193	1,726,374	1,755,693	1,786,125	1,817,830	1,850,851	1,885,266	1,921,158	1,958,615	1,997,732
Executive Expenses	1,114,655	1,153,581	1,193,916	1,235,715	1,278,033	1,323,929	1,370,462	1,418,695	1,468,664	1,520,526
Alcohol Education Expenses	866,000	891,980	916,739	948,302	974,891	1,003,931	1,034,049	1,065,071	1,097,023	1,129,934
Administration Expenses	19,981,463	20,215,377	20,460,603	20,768,446	21,109,102	21,453,656	21,823,099	22,216,536	22,641,191	23,092,416
Warehouse Contract	15,184,573	15,467,379	15,755,453	16,048,891	16,347,795	16,652,266	16,962,408	17,278,326	17,600,127	17,927,922
Police (Enforcement)	15,952,413	16,433,342	16,928,771	17,439,135	17,964,866	18,506,488	19,064,417	19,639,167	20,231,244	20,841,170
Other Agencies										
Auditor General	2,100,000	1,750,000	1,350,000	1,000,000	1,030,000	1,060,900	1,092,727	1,125,509	1,159,274	1,194,032
Comptroller Operations	4,623,136	4,623,136	4,623,136	4,623,136	4,623,136	4,623,136	4,623,136	4,623,136	4,623,136	4,623,136
Treasury	95,959	99,846	103,803	108,132	112,842	117,339	122,233	127,330	132,640	138,172
General Services	48,580	47,085	47,595	48,111	48,633	49,160	49,693	50,232	50,776	51,327
Civil Service	105,724	109,264	112,922	116,704	120,611	124,650	128,824	133,137	137,595	142,203
Payroll Services	45,630	45,759	45,896	46,019	46,149	46,280	46,411	46,543	46,675	46,807
Office of Budget/Admin	75,045	78,470	82,052	85,797	89,713	93,808	98,000	102,567	107,249	112,144
Misc. Agencies	20,794	18,639	17,068	15,483	14,009	12,892	11,499	10,417	9,438	8,551
BMS Services	491,000	522,695	556,436	592,355	630,593	671,269	714,633	760,784	809,873	862,152
SUBTOTAL	\$67,360,895	\$63,162,929	\$63,982,245	\$64,880,334	\$66,208,627	\$67,590,368	\$69,026,649	\$70,520,590	\$72,073,553	\$73,688,246
Privatization Transition Costs and Revenues										
Proceeds from Warehouse and Inventory	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Sick and Annual Leave Payout	\$9,941,935	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Transition Store Expenses	\$10,252,126	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unemployment Payment Costs	\$10,569,600	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
SUBTOTAL	\$30,763,661	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
TOTAL EXPENSES	\$546,627,042	\$524,420,263	\$533,515,128	\$543,317,195	\$554,216,519	\$565,901,806	\$578,449,743	\$591,947,135	\$606,482,370	\$622,197,099
Drug and Alcohol Program	\$1,309,144	\$1,348,419	\$1,388,871	\$1,430,537	\$1,473,454	\$1,517,657	\$1,563,187	\$1,610,083	\$1,658,365	\$1,708,137
TOTAL PROFIT	\$236,094,663	\$70,377,840	\$72,505,141	\$74,890,809	\$77,044,902	\$78,430,992	\$80,075,465	\$82,008,759	\$84,265,127	\$86,863,434

## State Transfers

Franchise System - Medium  
Markup (665)

Transfers to the Commonwealth	Taxes										
	Forecast 1997	Forecast 1998	Forecast 1999	Forecast 2000	Forecast 2001	Forecast 2002	Forecast 2003	Forecast 2004	Forecast 2005	Forecast 2006	
Liquor Tax	101,067,843	102,778,187	104,606,183	106,566,541	108,671,793	110,936,094	113,375,457	116,008,018	118,854,347	121,937,802	
Gallonage Tax	0	0	0	0	0	0	0	0	0	0	
Sales Tax	49,691,689	50,532,608	51,431,373	52,395,216	53,430,298	54,543,580	55,742,933	57,037,276	58,436,721	59,952,753	
Corporate Income Tax	0	0	0	0	0	0	0	0	0	0	
Tax Enforcement	-395,145	-399,125	-403,378	-407,939	-412,838	-418,107	-423,782	-429,908	-436,531	-443,705	
Police (Enforcement)	15,952,413	16,433,342	16,928,771	17,439,135	17,964,886	18,506,488	19,064,417	19,639,167	20,231,244	20,841,170	
Drug and Alcohol Program	1,309,144	1,348,419	1,388,871	1,430,537	1,473,454	1,517,657	1,563,187	1,610,083	1,658,385	1,708,137	
Profit Transfer to General Fund	236,094,863	70,377,640	72,565,141	74,890,609	77,044,962	79,430,992	82,075,485	85,008,759	88,265,127	91,883,434	
IPO Proceeds	0										
Shifted Benefits Cost											
Annuity Hospitalization	-3,983,355	-4,080,538	-4,180,134	-4,282,203	-4,386,808	-4,494,013	-4,603,883	-4,716,485	-4,831,889	-4,950,166	
Civil Service	-599,100	-619,161	-639,893	-661,320	-683,464	-706,349	-730,001	-754,445	-779,707	-805,816	
Payroll	-258,568	-259,301	-260,036	-260,773	-261,513	-262,254	-262,998	-263,743	-264,491	-265,241	
Regulatory Costs	0	0	0	0	0	0	0	0	0	0	
<b>TOTAL: Commonwealth Transfers</b>	<b>398,879,785</b>	<b>238,112,072</b>	<b>241,436,898</b>	<b>247,109,804</b>	<b>252,840,771</b>	<b>259,054,087</b>	<b>265,800,815</b>	<b>273,138,720</b>	<b>281,133,204</b>	<b>289,858,368</b>	
Transfers to Local Government	Taxes										
	Forecast 1997	Forecast 1998	Forecast 1999	Forecast 2000	Forecast 2001	Forecast 2002	Forecast 2003	Forecast 2004	Forecast 2005	Forecast 2006	
Local Sales Tax	2,567,404	2,610,851	2,657,288	2,707,086	2,760,565	2,818,085	2,880,052	2,946,926	3,019,231	3,097,559	
License Fees to Municipalities	4,725,276	4,682,685	4,640,479	4,598,652	4,557,203	4,516,128	4,475,422	4,435,084	4,395,109	4,355,494	
<b>TOTAL: Local Government Transfers</b>	<b>7,292,680</b>	<b>7,293,537</b>	<b>7,297,766</b>	<b>7,305,739</b>	<b>7,317,769</b>	<b>7,334,213</b>	<b>7,355,474</b>	<b>7,382,010</b>	<b>7,414,339</b>	<b>7,453,053</b>	

## Appendix II

Financial projections subject to the provisions  
contained in the inside cover page of this report.



## Retail Franchise System - Medium Markup (1,500)

### Descriptive Statistics:

Liquor Excise Tax:	18%
Wholesale Markup:	18%
Expected Retail Markup:	25%
Expected Number of Retail Outlets:	1,500

### Selected Economic Impacts

Average Impact on Spirits Prices (1st Year):	1.74%
Average Impact on Wine Prices (1st Year):	-7.55%
"Up Front" Revenues:	\$198 million

### Revenue to Commonwealth Government - Scenario vs. Baseline (\$millions)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	10-yr Sum
Scenario	\$397.39	\$234.59	\$239.88	\$245.51	\$251.21	\$257.39	\$264.10	\$271.40	\$279.35	\$288.04	\$2,728.84
Baseline:	\$240.02	\$241.44	\$243.16	\$245.17	\$247.18	\$249.61	\$252.51	\$255.94	\$259.98	\$264.69	\$2,499.71
Differenc	\$157.37	(\$6.85)	(\$3.29)	\$0.34	\$4.03	\$7.78	\$11.59	\$15.45	\$19.37	\$23.35	\$229.14

# Privatization Analysis of the Pennsylvania Wine and Spirits Industry

## PLU'd Summary: Franchise System - Medium Markup (1,500)

	Forecast 1997	Forecast 1998	Forecast 1999	Forecast 2000	Forecast 2001	Forecast 2002	Forecast 2003	Forecast 2004	Forecast 2005	Forecast 2006
<b>Operating Revenue</b>										
Liquor										
License Sales	104,270,116	104,534,411	104,799,803	105,075,292	105,360,879	105,650,566	105,942,357	106,278,254	106,604,282	106,940,388
Retail Sales	235,835,966	235,118,842	234,724,613	234,380,177	234,022,454	233,711,381	233,426,712	233,188,214	232,935,888	232,728,864
LESS: Pass-through Discounts	8,043,987	8,040,004	8,037,011	8,034,901	8,033,687	8,033,303	8,033,803	8,035,161	8,037,374	8,040,435
Wine										
License Sales	37,485,987	38,824,212	40,214,216	41,681,819	43,189,587	44,740,207	46,376,484	48,081,357	49,857,893	51,709,304
Retail Sales	181,944,708	186,211,172	194,723,643	201,510,097	208,592,840	215,953,954	223,837,320	231,848,858	239,998,539	248,702,242
LESS: Pass-through Discounts	5,184,224	5,374,238	5,561,300	5,758,211	5,959,319	6,170,987	6,391,598	6,621,544	6,861,250	7,111,152
Bottle Pick	7,240,829	7,468,380	7,698,958	7,938,780	8,186,073	8,441,068	8,704,007	8,975,137	9,254,712	9,542,986
Special Order	15,480,369	17,117,731	20,281,298	23,220,068	26,589,808	30,453,816	34,886,174	39,971,214	45,808,191	52,503,023
<b>SUBTOTAL</b>	<b>\$568,728,844</b>	<b>\$578,450,307</b>	<b>\$588,644,419</b>	<b>\$599,975,120</b>	<b>\$611,918,255</b>	<b>\$624,752,702</b>	<b>\$638,597,856</b>	<b>\$653,464,126</b>	<b>\$669,559,840</b>	<b>\$686,975,230</b>
<b>Agency Revenue</b>										
License Fees	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
Retail License fees	0	0	0	0	0	0	0	0	0	0
Wholesale License fees	1,331,424	1,410,043	1,493,305	1,581,483	1,674,898	1,773,787	1,878,508	1,989,430	2,106,903	2,231,314
Application fees	608,024	815,853	823,758	831,740	839,789	847,938	856,152	864,447	872,823	881,280
Transfer fees	4,850,036	5,024,789	5,205,840	5,393,413	5,587,745	5,789,080	5,997,068	6,213,772	6,437,893	6,669,821
Permit fees	650,813	648,240	641,609	637,191	632,713	628,268	623,853	619,470	615,117	610,795
Entertainment fees	1,716,772	1,888,794	1,659,339	1,630,397	1,601,980	1,574,019	1,546,608	1,519,591	1,493,087	1,467,045
Admin fees	46,561	36,121	29,914	23,473	16,424	14,454	11,342	8,900	6,984	5,460
Bond forfeiture	198,452,906	0	0	0	0	0	0	0	0	0
Franchise Fees	0	0	0	0	0	0	0	0	0	0
Franchise Royalty Fees	4,360,176	4,920,239	5,552,240	6,265,420	7,070,208	7,978,370	9,003,184	10,159,835	11,464,832	12,937,253
Interest Income	1,186,032	1,154,989	1,124,719	1,095,282	1,066,576	1,038,842	1,011,439	984,948	959,152	934,031
Enforcement fines	1,230,439	1,325,966	1,428,908	1,538,843	1,659,390	1,789,219	1,927,049	2,073,881	2,237,881	2,411,821
Miscellaneous revenue	218,137,208	116,525,015	119,459,722	120,498,222	121,851,879	122,932,753	124,355,758	125,938,851	127,684,241	129,486,440
<b>SUBTOTAL</b>	<b>\$784,866,050</b>	<b>\$808,981,322</b>	<b>\$833,304,141</b>	<b>\$858,473,341</b>	<b>\$883,569,934</b>	<b>\$908,685,455</b>	<b>\$933,823,415</b>	<b>\$958,975,976</b>	<b>\$984,148,881</b>	<b>\$1,009,337,870</b>
<b>TOTAL REVENUE</b>	<b>\$1,353,594,894</b>	<b>\$1,387,431,629</b>	<b>\$1,421,948,560</b>	<b>\$1,458,448,461</b>	<b>\$1,495,488,189</b>	<b>\$1,533,438,157</b>	<b>\$1,572,421,271</b>	<b>\$1,612,440,102</b>	<b>\$1,652,708,721</b>	<b>\$1,696,313,100</b>
<b>Operating Expenses</b>										
Cost of goods sold	453,482,287	461,237,334	469,532,884	478,436,861	488,007,892	498,311,418	509,422,784	521,426,544	534,418,817	548,508,851
Salaries and Benefits	0	0	0	0	0	0	0	0	0	0
Wage Employees	0	0	0	0	0	0	0	0	0	0
Salaries Employees	0	0	0	0	0	0	0	0	0	0
Management	0	0	0	0	0	0	0	0	0	0
Retail Agency Payments	0	0	0	0	0	0	0	0	0	0
Store Expenses	0	0	0	0	0	0	0	0	0	0
<b>SUBTOTAL</b>	<b>\$453,482,287</b>	<b>\$461,237,334</b>	<b>\$469,532,884</b>	<b>\$478,436,861</b>	<b>\$488,007,892</b>	<b>\$498,311,418</b>	<b>\$509,422,784</b>	<b>\$521,426,544</b>	<b>\$534,418,817</b>	<b>\$548,508,851</b>
<b>Agency Expenses</b>										
Stores and Purchasing Admin	1,898,193	1,726,374	1,755,683	1,786,125	1,817,830	1,850,851	1,885,266	1,921,158	1,958,815	1,997,732
Executive Expenses	1,114,655	1,153,581	1,193,916	1,235,715	1,278,033	1,323,929	1,370,492	1,418,895	1,468,894	1,520,529
Alcohol Education Expenses	666,000	691,980	716,739	746,302	780,891	816,931	854,049	892,330	930,871	970,694
Administration Expenses	20,286,900	20,519,881	20,794,609	21,091,772	21,412,156	21,756,644	22,128,227	22,528,008	22,945,203	23,387,170
Warehouse Contract	17,008,721	17,323,465	17,648,107	17,974,758	18,309,531	18,650,538	18,997,887	19,351,725	19,712,143	20,079,273
Police (Enforcement)	15,952,413	16,433,342	16,928,771	17,439,135	17,964,868	18,506,488	19,064,417	19,639,187	20,231,244	20,841,170
Other Agencies	2,100,000	1,750,000	1,350,000	1,000,000	1,030,000	1,060,900	1,092,727	1,125,509	1,159,274	1,194,052
Auditor General	4,823,138	4,823,138	4,823,138	4,823,138	4,823,138	4,823,138	4,823,138	4,823,138	4,823,138	4,823,138
Comptroller Operations	95,659	96,848	103,603	108,132	112,842	117,339	122,233	127,330	132,640	138,172
Treasury	48,560	47,085	47,595	48,111	48,633	49,160	49,693	50,232	50,778	51,327
General Services	105,724	109,284	112,922	116,704	120,611	124,650	128,824	133,137	137,595	142,203
Civil Service	45,030	45,759	46,589	47,429	48,279	49,139	50,009	50,879	51,749	52,619
Payroll Services	75,045	76,470	77,895	79,320	80,745	82,170	83,595	85,020	86,445	87,870
Office of Budget/Admin	20,784	18,839	17,068	15,483	14,009	12,692	11,499	10,417	9,438	8,551
Misc. Agencies	491,000	522,695	556,436	592,355	630,593	671,299	714,833	760,764	809,873	862,152
<b>SUBTOTAL</b>	<b>\$64,508,450</b>	<b>\$65,343,520</b>	<b>\$66,178,708</b>	<b>\$67,009,527</b>	<b>\$67,836,816</b>	<b>\$68,661,846</b>	<b>\$69,487,459</b>	<b>\$70,312,650</b>	<b>\$71,137,421</b>	<b>\$71,962,192</b>
<b>Privatization Transition Costs and Revenues</b>										
Proceeds from Warehouse and Inventory	0	0	0	0	0	0	0	0	0	0
Sick and Annual Leave Payout	\$9,941,935	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Transition Store Expenses	\$10,252,126	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unemployment Payment Costs	\$10,569,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>SUBTOTAL</b>	<b>\$30,763,061</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>TOTAL EXPENSES</b>	<b>\$68,271,511</b>	<b>\$65,343,520</b>	<b>\$66,178,708</b>	<b>\$67,009,527</b>	<b>\$67,836,816</b>	<b>\$68,661,846</b>	<b>\$69,487,459</b>	<b>\$70,312,650</b>	<b>\$71,137,421</b>	<b>\$71,962,192</b>
<b>Drug and Alcohol Program</b>										
<b>TOTAL PROFIT</b>	<b>\$1,285,322,383</b>	<b>\$1,322,088,109</b>	<b>\$1,355,769,852</b>	<b>\$1,380,438,934</b>	<b>\$1,407,480,297</b>	<b>\$1,434,776,310</b>	<b>\$1,462,998,487</b>	<b>\$1,491,013,558</b>	<b>\$1,518,589,904</b>	<b>\$1,544,350,908</b>

## Appendix II

Financial projections subject to the provisions contained in the inside cover page of this report.

## State Transfers

Franchise System - Medium  
Markup (1,500)

Transfers to the Commonwealth	Forecast 1997	Forecast 1998	Forecast 1999	Forecast 2000	Forecast 2001	Forecast 2002	Forecast 2003	Forecast 2004	Forecast 2005	Forecast 2006
<b>Taxes</b>										
Liquor Tax	101,067,843	102,778,187	104,606,183	106,566,541	108,671,793	110,936,094	113,375,457	116,008,018	118,854,347	121,937,802
Galloneage Tax	0	0	0	0	0	0	0	0	0	0
Sales Tax	49,691,689	50,532,608	51,431,373	52,395,216	53,430,298	54,543,580	55,742,933	57,037,276	58,436,721	59,952,753
Corporate Income Tax	0	0	0	0	0	0	0	0	0	0
Tax Enforcement	-596,021	-600,001	-604,254	-608,815	-613,714	-618,982	-624,658	-630,784	-637,407	-644,581
Police (Enforcement)	15,952,413	16,433,342	16,928,771	17,439,135	17,964,888	18,506,488	19,064,417	19,639,187	20,231,244	20,841,170
Drug and Alcohol Program	1,309,144	1,348,419	1,388,871	1,430,537	1,473,454	1,517,657	1,563,187	1,610,083	1,658,385	1,708,137
Profit Transfer to General Fund	234,802,298	69,052,050	71,205,678	73,496,416	75,615,173	77,984,731	80,571,868	83,466,890	86,684,099	90,262,331
IPO Proceeds	0									
Shifted Benefits Cost										
Annuitants Hospitalization	-3,983,355	-4,080,538	-4,180,134	-4,282,203	-4,386,808	-4,494,013	-4,603,883	-4,716,485	-4,831,889	-4,950,166
Civil Service	-599,100	-619,161	-639,893	-661,320	-683,464	-706,349	-730,001	-754,445	-779,707	-805,816
Payroll	-258,568	-259,301	-260,036	-260,773	-261,513	-262,254	-262,998	-263,743	-264,491	-265,241
Regulatory Costs	0	0	0	0	0	0	0	0	0	0
<b>TOTAL: Commonwealth Transfers</b>	<b>397,386,343</b>	<b>234,585,606</b>	<b>239,876,559</b>	<b>245,514,735</b>	<b>251,210,106</b>	<b>257,386,951</b>	<b>264,096,322</b>	<b>271,395,975</b>	<b>279,351,301</b>	<b>288,036,390</b>
<b>Transfers to Local Government</b>										
Local Sales Tax	2,567,404	2,610,851	2,657,288	2,707,086	2,760,565	2,818,085	2,880,052	2,946,926	3,019,231	3,097,559
License Fees to Municipalities	4,725,276	4,682,685	4,840,479	4,598,652	4,557,203	4,516,128	4,475,422	4,435,084	4,395,109	4,355,494
<b>TOTAL: Local Government Transfers</b>	<b>7,292,680</b>	<b>7,293,537</b>	<b>7,297,766</b>	<b>7,305,739</b>	<b>7,317,769</b>	<b>7,334,213</b>	<b>7,355,474</b>	<b>7,382,010</b>	<b>7,414,339</b>	<b>7,453,053</b>

## Retail Franchise System - High Markup

### Descriptive Statistics:

Liquor Excise Tax:	18%
Wholesale Markup:	27%
Expected Retail Markup:	25%
Expected Number of Retail Outlets:	665

### Selected Economic Impacts

Average Impact on Spirits Prices (1st Year):	9.50%
Average Impact on Wine Prices (1st Year):	-0.50%
"Up Front" Revenues:	\$198 million

### Revenue to Commonwealth Government - Scenario vs. Baseline (\$millions)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	10-yr Sum
Scenario	\$436.32	\$274.12	\$280.05	\$286.38	\$292.83	\$299.81	\$307.38	\$315.62	\$324.59	\$334.38	\$3,151.49
Baseline:	\$240.02	\$241.44	\$243.16	\$245.17	\$247.18	\$249.61	\$252.51	\$255.94	\$259.98	\$264.69	\$2,499.71
Differenc	\$196.30	\$32.68	\$36.89	\$41.21	\$45.65	\$50.20	\$54.87	\$59.68	\$64.62	\$69.70	\$651.78



**PLCB Summary**  
Franchise System - High  
Markup

	Forecast 1997	Forecast 1998	Forecast 1999	Forecast 2000	Forecast 2001	Forecast 2002	Forecast 2003	Forecast 2004	Forecast 2005	Forecast 2006
<b>Operating Revenue</b>										
Liquor										
License Sales	105,525,459	105,751,929	105,988,878	106,235,864	106,483,367	106,761,186	107,038,346	107,327,850	107,628,997	107,935,893
Retail Sales	238,351,090	237,855,059	237,381,724	236,946,764	236,537,880	236,154,794	235,799,239	235,470,987	235,169,740	234,895,331
LESS: Pass-through Discounts	8,140,028	8,133,847	8,128,190	8,123,649	8,120,018	8,117,290	8,115,458	8,114,516	8,114,480	8,115,263
<b>Wine</b>										
License Sales	38,530,862	39,888,878	41,298,093	42,765,498	44,293,471	45,884,719	47,542,087	49,268,489	51,067,015	52,940,935
Retail Sales	197,016,269	193,371,469	189,971,946	186,848,387	183,412,911	180,012,911	176,688,336	173,435,933	170,258,760	167,162,923
LESS: Pass-through Discounts	5,339,009	5,321,568	5,311,191	5,300,701	5,291,191	5,282,465	5,274,236	5,266,498	5,259,248	5,252,498
Bottle Pick	7,240,829	7,466,360	7,698,956	7,936,780	8,184,780	8,441,068	8,704,000	8,975,137	9,254,712	9,542,998
Special Order	15,762,335	18,056,369	20,665,483	23,653,355	27,076,264	31,005,007	35,507,901	40,672,546	46,587,376	53,395,442
<b>SUBTOTAL</b>	<b>\$578,987,827</b>	<b>\$588,738,872</b>	<b>\$599,171,559</b>	<b>\$610,358,294</b>	<b>\$622,367,512</b>	<b>\$635,278,974</b>	<b>\$648,182,876</b>	<b>\$661,181,358</b>	<b>\$674,280,214</b>	<b>\$687,380,909</b>
<b>Agency Revenue</b>										
License Fees										
Retail License fees	665,000	665,000	665,000	665,000	665,000	665,000	665,000	665,000	665,000	665,000
Wholesale License fees	0	0	0	0	0	0	0	0	0	0
Application fees	1,331,424	1,410,043	1,493,305	1,581,463	1,674,888	1,773,787	1,878,506	1,989,430	2,106,903	2,231,314
Transfer fees	808,024	815,953	823,756	831,740	839,769	847,936	856,152	864,447	872,823	881,280
Permit fees	4,850,036	8,024,789	5,205,840	5,393,413	5,587,745	5,789,080	5,997,688	6,213,772	6,437,663	6,669,621
Entertainment fees	850,813	848,240	841,899	837,191	832,713	828,268	823,853	819,470	815,117	810,795
Admin fees	1,718,772	1,868,794	1,959,339	1,930,397	1,901,960	1,874,019	1,846,566	1,819,591	1,793,087	1,767,045
Bond forfeiture	48,561	38,121	29,914	23,473	18,420	14,454	11,342	8,900	6,884	5,480
Franchise Royalty Fees	198,452,906	0	0	0	0	0	0	0	0	0
Interest Income	4,360,178	4,920,239	5,552,240	6,265,420	7,070,208	7,978,370	9,003,164	10,159,835	11,464,832	12,937,253
Enforcement fines	1,166,032	1,154,969	1,124,719	1,095,262	1,066,576	1,038,842	1,011,439	984,948	959,152	934,031
Miscellaneous revenue	1,230,439	1,325,968	1,428,908	1,539,843	1,659,390	1,788,219	1,927,049	2,076,857	2,237,881	2,411,621
<b>SUBTOTAL</b>	<b>\$215,302,206</b>	<b>\$178,990,015</b>	<b>\$19,624,722</b>	<b>\$19,663,222</b>	<b>\$20,818,878</b>	<b>\$22,097,753</b>	<b>\$23,520,758</b>	<b>\$25,101,851</b>	<b>\$26,859,241</b>	<b>\$28,813,440</b>
<b>TOTAL REVENUE</b>	<b>\$794,270,033</b>	<b>\$767,728,887</b>	<b>\$617,796,281</b>	<b>\$630,021,516</b>	<b>\$643,186,390</b>	<b>\$657,376,727</b>	<b>\$671,703,634</b>	<b>\$686,283,209</b>	<b>\$701,139,455</b>	<b>\$716,194,349</b>
<b>Operating Expenses</b>										
Cost of goods sold	428,078,931	436,267,881	444,012,284	452,329,109	461,273,318	470,806,950	481,300,244	492,532,806	504,894,986	517,889,346
Salaries and Benefits	0	0	0	0	0	0	0	0	0	0
Wage Employees	0	0	0	0	0	0	0	0	0	0
Salaried Employees	0	0	0	0	0	0	0	0	0	0
Management	0	0	0	0	0	0	0	0	0	0
Retail Agency Payments	0	0	0	0	0	0	0	0	0	0
Store Expenses	0	0	0	0	0	0	0	0	0	0
<b>SUBTOTAL</b>	<b>\$428,078,931</b>	<b>\$436,267,881</b>	<b>\$444,012,284</b>	<b>\$452,329,109</b>	<b>\$461,273,318</b>	<b>\$470,806,950</b>	<b>\$481,300,244</b>	<b>\$492,532,806</b>	<b>\$504,894,986</b>	<b>\$517,889,346</b>
<b>Agency Expenses</b>										
Stores and Purchasing Admin	1,898,193	1,726,374	1,755,663	1,788,125	1,817,830	1,850,851	1,885,266	1,921,158	1,958,615	1,997,732
Executive Expenses	1,114,855	1,163,581	1,193,916	1,235,715	1,279,033	1,323,929	1,370,462	1,418,895	1,468,694	1,520,529
Alcohol Education Expenses	868,000	891,980	918,739	946,302	974,891	1,003,931	1,034,049	1,065,071	1,097,023	1,129,934
Administrative Expenses	19,061,483	20,215,377	20,490,600	20,768,448	21,109,102	21,483,956	21,923,099	22,416,538	22,964,191	23,572,418
Warehouse Contract	15,184,573	15,487,379	15,755,453	16,048,891	16,347,795	16,652,266	16,962,408	17,278,326	17,600,127	17,927,922
Police (Enforcement)	15,952,413	16,433,342	16,928,771	17,439,135	17,964,888	18,506,488	19,064,417	19,639,167	20,231,244	20,841,170
Other Agencies	2,100,000	1,750,000	1,350,000	1,000,000	1,030,000	1,060,800	1,092,727	1,125,509	1,159,274	1,194,052
Auditor General	4,823,138	4,823,138	4,823,138	4,823,138	4,823,138	4,823,138	4,823,138	4,823,138	4,823,138	4,823,138
Comptroller Operations	95,859	99,848	103,803	108,132	112,842	117,339	122,233	127,330	132,840	138,172
Treasury	46,850	47,085	47,595	48,111	48,633	49,160	49,693	50,232	50,778	51,327
General Services	105,724	109,284	112,922	116,704	120,611	124,550	128,624	133,137	137,995	142,203
City Service	45,830	45,759	45,689	45,619	45,549	45,479	45,409	45,339	45,269	45,199
Peyroll Services	75,045	76,470	82,052	85,797	89,713	93,808	98,090	102,567	107,249	112,144
Office of Budget/Admin	20,794	18,839	17,068	15,463	14,009	12,692	11,409	10,177	9,438	8,551
Misc. Agencies	491,000	822,895	850,436	592,355	630,593	671,299	714,633	760,784	809,873	862,152
<b>SUBTOTAL</b>	<b>\$62,360,865</b>	<b>\$63,162,929</b>	<b>\$63,982,245</b>	<b>\$64,860,334</b>	<b>\$65,798,827</b>	<b>\$66,780,368</b>	<b>\$67,820,948</b>	<b>\$68,920,500</b>	<b>\$70,073,553</b>	<b>\$71,286,246</b>
<b>Privatization Transition Costs and Revenues</b>										
Proceeds from Warehouse and Inventory	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Sick and Annual Leave Payout	\$9,941,935	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Transition Store Expenses	\$10,252,128	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unemployment Payment Costs	\$10,569,600	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>SUBTOTAL</b>	<b>\$30,763,663</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>TOTAL EXPENSES</b>	<b>\$522,174,877</b>	<b>\$499,430,810</b>	<b>\$507,994,509</b>	<b>\$517,209,443</b>	<b>\$527,482,145</b>	<b>\$538,487,318</b>	<b>\$550,321,193</b>	<b>\$563,053,306</b>	<b>\$576,768,519</b>	<b>\$591,577,595</b>
<b>Drug and Alcohol Program</b>	<b>\$1,308,144</b>	<b>\$1,348,419</b>	<b>\$1,388,871</b>	<b>\$1,430,537</b>	<b>\$1,473,454</b>	<b>\$1,516,657</b>	<b>\$1,560,187</b>	<b>\$1,604,039</b>	<b>\$1,648,213</b>	<b>\$1,692,717</b>
<b>TOTAL PROFIT</b>	<b>\$270,766,212</b>	<b>\$105,927,458</b>	<b>\$106,412,901</b>	<b>\$111,381,536</b>	<b>\$114,226,592</b>	<b>\$117,361,732</b>	<b>\$120,813,257</b>	<b>\$124,619,730</b>	<b>\$128,822,552</b>	<b>\$133,408,617</b>

**Appendix II**

Financial projections subject to the provisions  
contained in the inside cover page of this report.

## State Transfers

Franchise System - High  
Markup

Transfers to the Commonwealth		Forecast 1997	Forecast 1998	Forecast 1999	Forecast 2000	Forecast 2001	Forecast 2002	Forecast 2003	Forecast 2004	Forecast 2005	Forecast 2006
<b>Taxes</b>											
	Liquor Tax	102,910,860	104,628,652	106,465,068	108,435,513	110,552,659	112,830,823	115,286,197	117,937,120	120,804,390	123,911,624
	Galloneage Tax	0	0	0	0	0	0	0	0	0	0
	Sales Tax	50,597,839	51,442,421	52,345,325	53,314,127	54,355,057	55,475,155	56,682,380	57,985,751	59,395,492	60,923,215
	Corporate Income Tax	0	0	0	0	0	0	0	0	0	0
	Tax Enforcement	-399,433	-403,430	-407,703	-412,288	-417,214	-422,515	-428,228	-434,397	-441,068	-448,298
	Police (Enforcement)	15,952,413	16,433,342	16,928,771	17,439,135	17,964,886	18,506,488	19,064,417	19,639,167	20,231,244	20,841,170
	Drug and Alcohol Program	1,309,144	1,348,419	1,388,871	1,430,537	1,473,454	1,517,657	1,563,187	1,610,083	1,658,385	1,708,137
	Profit Transfer to General Fund	270,786,212	105,627,458	108,412,901	111,381,536	114,228,592	117,361,732	120,813,257	124,619,730	128,822,552	133,468,617
	IPO Proceeds	0									
	Shifted Benefits Cost										
	Annuitants Hospitalization	-3,983,355	-4,080,538	-4,180,134	-4,282,203	-4,386,808	-4,494,013	-4,603,883	-4,716,485	-4,831,889	-4,950,166
	Civil Service	-599,100	-619,161	-639,893	-661,320	-683,464	-706,349	-730,001	-754,445	-779,707	-805,816
	Payroll	-258,568	-259,301	-260,036	-260,773	-261,513	-262,254	-262,998	-263,743	-264,491	-265,241
	Regulatory Costs	0	0	0	0	0	0	0	0	0	0
<b>TOTAL: Commonwealth Transfers</b>		436,316,012	274,117,862	280,053,170	286,384,264	292,825,650	299,806,723	307,384,328	315,622,779	324,594,907	334,383,244
<b>Transfers to Local Government</b>											
	Local Sales Tax	2,614,222	2,657,858	2,704,508	2,754,563	2,808,345	2,866,216	2,928,590	2,995,930	3,068,767	3,147,699
	License Fees to Municipalities	4,725,276	4,682,685	4,640,479	4,598,652	4,557,203	4,516,128	4,475,422	4,435,084	4,395,109	4,355,494
<b>TOTAL: Local Government Transfers</b>		7,339,497	7,340,544	7,344,987	7,353,216	7,365,548	7,382,344	7,404,012	7,431,014	7,463,876	7,503,194

## Retail Franchise System - Price Neutral

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### Descriptive Statistics:

Liquor Excise Tax:	18%
Wholesale Markup:	25% w, 18% sp
Expected Retail Markup:	27%, w 23% sp
Expected Number of Retail Outlets:	665

### Selected Economic Impacts

Average Impact on Spirits Prices (1st Year):	0.11%
Average Impact on Wine Prices (1st Year):	-0.50%
"Up Front" Revenues:	\$198 million

### Revenue to Commonwealth Government - Scenario vs. Baseline (\$millions)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	10-yr Sum
Scenario	\$412.65	\$250.38	\$256.24	\$262.48	\$268.82	\$275.69	\$283.14	\$291.25	\$300.07	\$309.70	\$2,910.42
Baseline:	\$240.02	\$241.44	\$243.16	\$245.17	\$247.18	\$249.61	\$252.51	\$255.94	\$259.98	\$264.69	\$2,499.71
Differenc	\$172.63	\$8.94	\$13.07	\$17.30	\$21.64	\$26.08	\$30.63	\$35.30	\$40.10	\$45.02	\$410.72



# Privatization Analysis of the Pennsylvania Wine and Spirits Industry

## PLCB Summary:

Franchise System - Price Neutral

	Forecast 1997	Forecast 1998	Forecast 1999	Forecast 2000	Forecast 2001	Forecast 2002	Forecast 2003	Forecast 2004	Forecast 2005	Forecast 2006
<b>Operating Revenue</b>										
Liquor										
License Sales	105,566,417	105,851,126	106,126,034	106,411,143	106,706,453	107,011,968	107,327,690	107,653,023	107,988,772	108,336,143
Retail Sales	238,488,777	238,076,170	237,895,233	237,339,683	237,011,179	236,709,516	236,434,433	236,185,893	235,963,078	235,766,375
LESS: Pass-through Discounts	6,144,730	6,141,278	6,138,719	6,137,051	6,136,266	6,136,357	6,137,319	6,136,146	6,141,834	6,145,377
<b>Wine</b>										
License Sales	37,924,077	39,260,510	40,847,729	42,092,023	43,595,938	45,162,125	46,793,373	48,492,588	50,262,810	52,107,220
Retail Sales	184,071,151	190,326,249	196,922,761	203,590,912	210,842,029	217,990,488	225,647,847	233,637,887	241,945,050	250,616,066
LESS: Pass-through Discounts	5,254,930	5,434,932	5,821,251	5,815,951	6,018,174	6,229,182	6,449,051	6,678,177	6,916,973	7,165,874
Bottle Pick	7,240,829	7,466,380	7,898,958	7,938,780	8,169,073	8,441,068	8,704,007	8,975,137	9,254,712	9,542,986
Special Order	16,156,875	18,482,089	21,144,694	24,195,213	27,690,828	31,697,251	36,290,010	41,555,936	47,594,869	54,521,633
<b>SUBTOTAL</b>	<b>\$578,068,468</b>	<b>\$585,888,817</b>	<b>\$596,375,459</b>	<b>\$607,815,032</b>	<b>\$619,870,057</b>	<b>\$632,646,880</b>	<b>\$646,610,791</b>	<b>\$661,673,540</b>	<b>\$677,952,081</b>	<b>\$695,578,182</b>
<b>Agency Revenue</b>										
License Fees										
Retail License fees	665,000	665,000	665,000	665,000	665,000	665,000	665,000	665,000	665,000	665,000
Wholesale License fees	0	0	0	0	0	0	0	0	0	0
Application fees	1,331,424	1,410,043	1,493,305	1,561,483	1,674,666	1,773,767	1,878,506	1,989,430	2,106,903	2,231,314
Transfer fees	808,024	815,853	823,758	831,740	839,790	847,936	856,152	864,447	872,823	881,280
Permit fees	4,850,036	5,024,789	5,205,840	5,393,413	5,587,745	5,789,080	5,997,888	6,213,772	6,437,893	6,669,821
Entertainment fees	650,813	646,240	641,699	637,191	632,713	626,268	623,633	619,470	615,117	610,795
Admin fees	1,718,772	1,888,794	1,959,339	1,930,397	1,901,980	1,874,019	1,846,566	1,819,591	1,793,087	1,767,045
Bond forfeiture	48,581	38,121	29,614	23,473	18,420	14,454	11,342	8,900	6,984	5,480
Franchise Fees	198,452,008	0	0	0	0	0	0	0	0	0
Interest Income	4,360,178	4,920,239	5,552,240	6,265,420	7,070,208	7,976,370	9,003,164	10,159,635	11,464,632	12,937,253
Enforcement fines	1,168,032	1,154,969	1,124,719	1,095,282	1,066,576	1,038,842	1,011,439	984,948	959,152	934,031
Miscellaneous revenue	1,230,439	1,325,966	1,428,009	1,539,843	1,659,390	1,789,219	1,927,049	2,073,657	2,237,881	2,411,821
<b>SUBTOTAL</b>	<b>\$215,302,208</b>	<b>\$17,890,015</b>	<b>\$18,824,722</b>	<b>\$19,663,222</b>	<b>\$20,816,679</b>	<b>\$22,097,753</b>	<b>\$23,520,758</b>	<b>\$25,101,851</b>	<b>\$26,859,241</b>	<b>\$28,813,440</b>
<b>TOTAL REVENUE</b>	<b>\$793,370,676</b>	<b>\$603,778,832</b>	<b>\$615,200,181</b>	<b>\$627,478,254</b>	<b>\$640,686,736</b>	<b>\$654,744,633</b>	<b>\$670,131,549</b>	<b>\$686,775,390</b>	<b>\$704,811,322</b>	<b>\$724,392,622</b>
<b>Operating Expenses</b>										
Cost of goods sold	448,873,702	458,261,987	464,167,219	472,656,878	481,788,684	491,620,919	502,231,457	513,699,990	526,119,215	539,594,444
Salaries and Benefits	0	0	0	0	0	0	0	0	0	0
Wage Employees	0	0	0	0	0	0	0	0	0	0
Salaried Employees	0	0	0	0	0	0	0	0	0	0
Management	0	0	0	0	0	0	0	0	0	0
Retail Agency Payments	0	0	0	0	0	0	0	0	0	0
Store Expenses	0	0	0	0	0	0	0	0	0	0
<b>SUBTOTAL</b>	<b>\$448,873,702</b>	<b>\$458,261,987</b>	<b>\$464,167,219</b>	<b>\$472,656,878</b>	<b>\$481,788,684</b>	<b>\$491,620,919</b>	<b>\$502,231,457</b>	<b>\$513,699,990</b>	<b>\$526,119,215</b>	<b>\$539,594,444</b>
<b>Agency Expenses</b>										
Stores and Purchasing Admin	1,898,193	1,726,374	1,755,663	1,766,125	1,817,830	1,850,851	1,885,266	1,921,156	1,958,615	1,997,732
Executive Expenses	1,114,855	1,153,581	1,193,916	1,235,715	1,279,033	1,323,929	1,370,462	1,418,695	1,468,694	1,520,526
Alcohol Education Expenses	866,000	891,980	916,739	946,302	974,691	1,003,931	1,034,049	1,065,071	1,097,023	1,129,934
Administration Expenses	19,901,483	20,215,377	20,490,000	20,786,446	21,109,102	21,453,656	21,823,099	22,218,536	22,641,191	23,092,418
Warehouse Contract	15,164,573	15,467,379	15,755,453	16,048,891	16,347,795	16,652,266	16,962,406	17,278,326	17,600,127	17,927,922
Police (Enforcement)	15,952,413	16,433,342	16,926,771	17,439,135	17,964,866	18,506,486	19,064,417	19,638,167	20,231,244	20,841,170
Other Agencies	2,100,000	1,750,000	1,350,000	1,000,000	1,030,000	1,060,000	1,092,727	1,125,509	1,159,274	1,194,052
Auditor General	4,823,136	4,823,136	4,823,136	4,823,136	4,823,136	4,823,136	4,823,136	4,823,136	4,823,136	4,823,136
Comptroller Operations	95,859	99,846	103,803	106,132	112,642	117,339	122,233	127,330	132,640	138,172
Treasury	48,580	47,085	47,595	48,111	48,633	49,160	49,693	50,232	50,778	51,327
General Services	105,724	109,264	112,922	116,704	120,611	124,650	128,824	133,137	137,595	142,203
Civil Service	45,630	45,759	45,889	46,019	46,149	46,280	46,411	46,543	46,675	46,807
Payroll Services	75,045	76,470	82,052	85,797	89,713	93,808	98,090	102,567	107,249	112,144
Office of Budget/Admin	20,784	18,839	17,068	15,483	14,009	12,692	11,498	10,417	9,438	8,551
Misc. Agencies	491,000	522,895	556,436	592,355	630,593	671,299	714,633	760,764	809,873	862,152
<b>SUBTOTAL</b>	<b>\$62,380,885</b>	<b>\$63,162,829</b>	<b>\$63,882,245</b>	<b>\$64,660,334</b>	<b>\$65,490,327</b>	<b>\$66,369,386</b>	<b>\$67,296,949</b>	<b>\$68,273,553</b>	<b>\$69,299,248</b>	<b>\$70,365,248</b>
<b>Privatization Transition Costs and Revenues</b>										
Proceeds from Warehouse and Inventory	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Sick and Annual Leave Payout	\$9,941,935	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Transition Store Expenses	\$10,252,126	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unemployment Payment Costs	\$10,509,800	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>SUBTOTAL</b>	<b>\$30,703,861</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>TOTAL EXPENSES</b>	<b>\$542,016,440</b>	<b>\$519,444,817</b>	<b>\$526,149,463</b>	<b>\$537,337,009</b>	<b>\$547,995,511</b>	<b>\$559,211,307</b>	<b>\$571,258,406</b>	<b>\$584,220,580</b>	<b>\$598,192,788</b>	<b>\$613,262,693</b>
<b>Drug and Alcohol Program</b>	<b>\$1,309,144</b>	<b>\$1,348,419</b>	<b>\$1,386,871</b>	<b>\$1,430,537</b>	<b>\$1,473,454</b>	<b>\$1,517,657</b>	<b>\$1,563,187</b>	<b>\$1,610,083</b>	<b>\$1,658,385</b>	<b>\$1,708,137</b>
<b>TOTAL PROFIT</b>	<b>\$248,043,060</b>	<b>\$82,785,287</b>	<b>\$85,481,846</b>	<b>\$86,310,707</b>	<b>\$89,026,372</b>	<b>\$94,015,669</b>	<b>\$97,309,956</b>	<b>\$100,944,726</b>	<b>\$104,966,169</b>	<b>\$109,401,793</b>

## Appendix II

Financial projections subject to the provisions contained in the inside cover page of this report.



## State Transfers

Franchise System - Price  
Neutral

Transfers to the Commonwealth	Taxes										
	Forecast 1997	Forecast 1998	Forecast 1999	Forecast 2000	Forecast 2001	Forecast 2002	Forecast 2003	Forecast 2004	Forecast 2005	Forecast 2006	Forecast 2006
Liquor Tax	102,388,975	104,116,003	105,961,770	107,941,725	110,068,665	112,357,046	114,823,221	117,485,713	120,365,526	123,486,514	
Gallonage Tax	0	0	0	0	0	0	0	0	0	0	0
Sales Tax	50,195,351	51,058,462	51,980,783	52,970,032	54,032,601	55,175,713	56,407,537	57,737,327	59,175,576	60,734,199	
Corporate Income Tax	0	0	0	0	0	0	0	0	0	0	0
Tax Enforcement	-397,529	-401,613	-405,978	-410,660	-415,688	-421,098	-426,928	-433,221	-440,027	-447,404	
Police (Enforcement)	15,952,413	16,433,342	16,928,771	17,439,135	17,964,886	18,506,488	19,064,417	19,639,167	20,231,244	20,841,170	
Drug and Alcohol Program	1,309,144	1,348,419	1,388,871	1,430,537	1,473,454	1,517,657	1,563,187	1,610,083	1,658,385	1,708,137	
Profit Transfer to General Fund	248,043,080	82,785,297	85,461,846	88,310,707	91,028,372	94,015,669	97,309,956	100,944,728	104,960,169	109,401,793	
IPO Proceeds	0	0	0	0	0	0	0	0	0	0	
Shifted Benefits Cost	-3,983,355	-4,080,538	-4,180,134	-4,282,203	-4,386,808	-4,494,013	-4,603,883	-4,716,485	-4,831,889	-4,950,166	
Annuitants Hospitalization	-599,100	-619,161	-639,893	-661,320	-683,464	-706,349	-730,001	-754,445	-779,707	-805,816	
Civil Service	-258,568	-259,301	-260,036	-260,773	-261,513	-262,254	-262,998	-263,743	-264,491	-265,241	
Payroll	0	0	0	0	0	0	0	0	0	0	
Regulatory Costs	0	0	0	0	0	0	0	0	0	0	
<b>TOTAL: Commonwealth Transfers</b>	<b>412,650,411</b>	<b>250,380,909</b>	<b>256,236,001</b>	<b>262,477,182</b>	<b>268,818,505</b>	<b>275,688,858</b>	<b>283,144,509</b>	<b>291,249,122</b>	<b>300,074,784</b>	<b>309,703,187</b>	
Transfers to Local Government	Taxes										
	Forecast 1997	Forecast 1998	Forecast 1999	Forecast 2000	Forecast 2001	Forecast 2002	Forecast 2003	Forecast 2004	Forecast 2005	Forecast 2006	Forecast 2006
Local Sales Tax	2,593,428	2,838,021	2,685,674	2,736,785	2,791,684	2,850,745	2,914,389	2,983,095	3,057,405	3,137,934	
License Fees to Municipalities	4,725,276	4,682,685	4,640,479	4,598,652	4,557,203	4,516,128	4,475,422	4,435,084	4,395,109	4,355,494	
<b>TOTAL: Local Government Transfers</b>	<b>7,318,702</b>	<b>7,320,706</b>	<b>7,326,152</b>	<b>7,335,437</b>	<b>7,348,888</b>	<b>7,366,873</b>	<b>7,389,812</b>	<b>7,418,179</b>	<b>7,452,514</b>	<b>7,493,428</b>	

## Retail Franchise System - Current Markup

### Descriptive Statistics:

Liquor Excise Tax:	18%
Wholesale Markup:	60% w, 45% sp
Expected Retail Markup:	23% w, 23% sp
Expected Number of Retail Outlets:	665

### Selected Economic Impacts

Average Impact on Spirits Prices (1st Year):	23.01%
Average Impact on Wine Prices (1st Year):	23.35%
"Up Front" Revenues:	\$198 million

### Revenue to Commonwealth Government - Scenario vs. Baseline (\$millions)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	10-yr Sum
Scenario	\$516.16	\$355.43	\$362.94	\$370.97	\$379.24	\$388.21	\$397.94	\$408.51	\$420.03	\$432.59	\$4,032.02
Baseline:	\$240.02	\$241.44	\$243.16	\$245.17	\$247.18	\$249.61	\$252.51	\$255.94	\$259.98	\$264.69	\$2,499.71
Differenc	\$276.14	\$113.99	\$119.78	\$125.80	\$132.06	\$138.60	\$145.43	\$152.57	\$160.05	\$167.90	\$1,532.32

# Privatization Analysis of the Pennsylvania Wine and Spirits Industry

## PLCB Summary

### Franchise System - Current Markups

	Forecast 1997	Forecast 1998	Forecast 1999	Forecast 2000	Forecast 2001	Forecast 2002	Forecast 2003	Forecast 2004	Forecast 2005	Forecast 2006
<b>Operating Revenue</b>										
Liquor										
License Sales	107,140,269	107,302,769	107,476,040	107,650,040	107,824,765	108,000,275	108,176,506	108,353,480	108,530,456	108,707,432
Retail Sales	241,908,516	241,343,220	240,718,901	240,125,205	239,581,708	239,028,363	238,524,601	238,050,228	237,604,971	237,168,570
LESS: Pass-through Discounts	6,264,592	6,252,827	6,242,250	6,232,552	6,223,825	6,215,062	6,206,256	6,203,400	6,196,467	6,189,511
<b>Wine</b>										
License Sales	40,612,372	42,171,478	43,376,078	45,040,679	46,581,788	48,143,848	49,789,941	51,502,598	53,284,896	55,139,853
Retail Sales	196,089,997	204,437,966	211,011,999	217,852,987	224,972,591	232,363,277	240,097,739	248,129,532	256,492,799	265,202,366
LESS: Pass-through Discounts	5,655,145	5,837,582	6,026,495	6,223,052	6,427,591	6,640,403	6,892,037	7,092,702	7,332,601	7,592,940
Bottle Pick	7,240,829	7,468,360	7,696,958	7,938,780	8,186,073	8,441,068	8,704,007	8,976,137	9,254,712	9,542,986
Special Order	17,220,053	19,672,755	22,477,164	25,683,901	29,357,976	33,561,119	38,373,090	43,863,182	50,193,947	57,423,200
<b>SUBTOTAL</b>	<b>\$598,562,321</b>	<b>\$608,304,076</b>	<b>\$616,092,396</b>	<b>\$629,847,989</b>	<b>\$641,843,935</b>	<b>\$654,761,525</b>	<b>\$668,894,593</b>	<b>\$683,748,054</b>	<b>\$700,041,171</b>	<b>\$717,709,285</b>
<b>Agency Revenue</b>										
License Fees										
Retail License fees	665,000	665,000	665,000	665,000	665,000	665,000	665,000	665,000	665,000	665,000
Wholesale License fees	0	0	0	0	0	0	0	0	0	0
Application fees	1,331,424	1,410,043	1,493,305	1,581,483	1,674,868	1,773,787	1,878,508	1,989,430	2,106,903	2,231,314
Transfer fees	806,024	815,853	823,758	831,740	839,799	847,936	856,152	864,447	872,823	881,280
Permit fees	4,850,036	5,024,789	5,205,840	5,393,413	5,587,745	5,789,080	5,997,668	6,213,772	6,437,863	6,669,821
Entertainment fees	650,813	646,240	641,899	637,191	632,713	628,268	623,853	619,470	615,117	610,795
Admin fees	1,716,772	1,866,764	1,959,339	1,930,397	1,901,900	1,874,019	1,846,566	1,818,591	1,790,087	1,761,045
Bond forfeiture	46,581	38,121	29,814	23,473	18,420	14,454	11,342	8,000	5,084	2,480
Franchise Fees	196,452,906	0	0	0	0	0	0	0	0	0
Franchise Royalty Fees	0	0	0	0	0	0	0	0	0	0
Interest Income	4,360,178	4,920,239	5,552,240	6,265,420	7,070,208	7,978,370	8,903,164	9,854,835	10,844,832	11,869,253
Enforcement fines	1,160,032	1,154,969	1,124,719	1,095,262	1,066,576	1,036,842	1,011,439	984,948	959,152	934,031
Miscellaneous revenue	1,230,439	1,325,968	1,428,908	1,539,843	1,659,390	1,786,219	1,927,049	2,076,637	2,237,881	2,411,821
<b>SUBTOTAL</b>	<b>\$215,302,206</b>	<b>\$17,890,015</b>	<b>\$18,024,722</b>	<b>\$19,663,222</b>	<b>\$20,816,879</b>	<b>\$22,097,753</b>	<b>\$23,520,758</b>	<b>\$25,101,851</b>	<b>\$26,859,241</b>	<b>\$28,813,440</b>
<b>TOTAL REVENUE</b>	<b>\$813,864,526</b>	<b>\$626,194,091</b>	<b>\$634,117,117</b>	<b>\$649,511,210</b>	<b>\$662,660,814</b>	<b>\$676,859,278</b>	<b>\$692,415,351</b>	<b>\$708,849,905</b>	<b>\$726,900,412</b>	<b>\$746,522,724</b>
<b>Operating Expenses</b>										
Cost of goods sold	373,227,227	378,920,069	385,016,335	391,583,384	398,660,073	406,269,236	414,558,319	423,502,437	433,205,456	443,751,261
Salaries and Benefits	0	0	0	0	0	0	0	0	0	0
Wage Employees	0	0	0	0	0	0	0	0	0	0
Salaries Employees	0	0	0	0	0	0	0	0	0	0
Management	0	0	0	0	0	0	0	0	0	0
Retail Agency Payments	0	0	0	0	0	0	0	0	0	0
Store Expenses	0	0	0	0	0	0	0	0	0	0
<b>SUBTOTAL</b>	<b>\$373,227,227</b>	<b>\$378,920,069</b>	<b>\$385,016,335</b>	<b>\$391,583,384</b>	<b>\$398,660,073</b>	<b>\$406,269,236</b>	<b>\$414,558,319</b>	<b>\$423,502,437</b>	<b>\$433,205,456</b>	<b>\$443,751,261</b>
<b>Agency Expenses</b>										
Stores and Purchasing Admin	1,096,193	1,226,374	1,355,863	1,496,125	1,651,830	1,824,851	1,998,266	2,178,117	2,363,615	2,550,732
Executive Expenses	1,114,655	1,153,881	1,193,916	1,235,715	1,279,033	1,323,929	1,370,462	1,418,695	1,468,894	1,520,526
Alcohol Education Expenses	868,000	891,880	916,739	946,302	974,891	1,003,931	1,034,049	1,065,071	1,097,023	1,129,934
Administration Expenses	19,961,403	20,215,377	20,490,000	20,788,448	21,109,102	21,453,656	21,823,099	22,216,538	22,641,191	23,092,416
Warehouse Contract	15,164,873	15,487,379	15,755,453	16,048,691	16,347,795	16,652,266	16,962,408	17,278,326	17,600,127	17,927,922
Police (Enforcement)	15,952,413	16,433,342	16,928,771	17,438,135	17,964,866	18,506,489	19,064,417	19,638,187	20,231,244	20,841,170
Other Agencies	2,100,000	1,750,000	1,350,000	1,000,000	1,030,000	1,060,900	1,092,727	1,125,509	1,159,274	1,194,052
Auditor General	4,823,136	4,823,136	4,823,136	4,823,136	4,823,136	4,823,136	4,823,136	4,823,136	4,823,136	4,823,136
Comptroller Operations	95,859	99,846	103,903	108,132	112,642	117,339	122,233	127,330	132,640	138,172
Treasury	46,560	47,085	47,595	48,111	48,633	49,160	49,693	50,232	50,778	51,327
General Services	105,724	109,264	112,922	116,704	120,611	124,650	128,824	133,137	137,595	142,203
Civil Service	45,630	45,759	45,889	46,019	46,149	46,280	46,411	46,543	46,675	46,807
Payroll Services	75,045	78,470	82,052	85,797	89,713	93,808	98,090	102,567	107,240	112,144
Office of Budget/Admin	20,704	18,839	17,068	15,403	14,009	12,892	11,499	10,417	9,438	8,551
Misc. Agencies	491,000	822,895	558,436	592,355	630,593	671,299	714,633	760,764	809,873	862,152
<b>SUBTOTAL</b>	<b>\$42,360,865</b>	<b>\$43,162,929</b>	<b>\$43,982,245</b>	<b>\$44,800,334</b>	<b>\$45,620,827</b>	<b>\$46,500,368</b>	<b>\$47,426,940</b>	<b>\$48,399,590</b>	<b>\$49,418,553</b>	<b>\$50,483,246</b>
<b>Privatization Transition Costs and Revenues</b>										
Proceeds from Warehouse and Inventory	0	0	0	0	0	0	0	0	0	0
Sick and Annual Leave Payout	99,941,935	0	0	0	0	0	0	0	0	0
Transition Store Expenses	10,252,126	0	0	0	0	0	0	0	0	0
Unemployment Payment Costs	10,569,800	0	0	0	0	0	0	0	0	0
<b>SUBTOTAL</b>	<b>\$120,763,861</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>TOTAL EXPENSES</b>	<b>\$494,031,087</b>	<b>\$422,082,999</b>	<b>\$429,000,580</b>	<b>\$436,383,697</b>	<b>\$444,280,899</b>	<b>\$452,769,604</b>	<b>\$461,985,259</b>	<b>\$471,902,027</b>	<b>\$482,624,009</b>	<b>\$493,234,506</b>
Drug and Alcohol Program	1,309,144	1,346,419	1,388,971	1,430,537	1,478,454	1,527,897	1,578,986	1,630,743	1,683,187	1,736,335
<b>TOTAL PROFIT</b>	<b>\$346,203,410</b>	<b>\$182,542,874</b>	<b>\$186,927,666</b>	<b>\$193,127,513</b>	<b>\$198,379,916</b>	<b>\$204,590,674</b>	<b>\$210,909,334</b>	<b>\$217,947,877</b>	<b>\$224,276,403</b>	<b>\$230,288,218</b>

## State Transfers

Franchise System - Current  
Markups

### Transfers to the Commonwealth

#### Taxes

	Forecast 1997	Forecast 1998	Forecast 1999	Forecast 2000	Forecast 2001	Forecast 2002	Forecast 2003	Forecast 2004	Forecast 2005	Forecast 2006
Liquor Tax	106,441,469	108,150,785	109,978,819	111,943,658	114,058,361	116,337,682	118,798,305	121,459,125	124,341,563	127,469,932
Gallonage Tax	0	0	0	0	0	0	0	0	0	0
Sales Tax	51,496,382	52,323,350	53,207,753	54,158,342	55,181,435	56,284,171	57,474,620	58,761,925	60,156,448	61,669,953
Corporate Income Tax	0	0	0	0	0	0	0	0	0	0
Tax Enforcement	-403,686	-407,599	-411,785	-416,283	-421,125	-426,344	-431,978	-438,070	-444,669	-451,832
Police (Enforcement)	15,952,413	16,433,342	16,928,771	17,439,135	17,964,888	18,506,488	19,064,417	19,639,167	20,231,244	20,841,170
Drug and Alcohol Program	1,309,144	1,348,419	1,388,871	1,430,537	1,473,454	1,517,657	1,563,187	1,610,083	1,658,385	1,708,137
Profit Transfer to General Fund	346,203,410	182,542,674	186,927,666	191,616,976	196,317,961	201,451,997	207,066,896	213,216,795	219,963,019	227,375,079
IPO Proceeds	0									
Shifted Benefits Cost										
Annuitants Hospitalization	-3,983,355	-4,080,538	-4,180,134	-4,282,203	-4,386,808	-4,494,013	-4,603,883	-4,716,485	-4,831,889	-4,950,166
Civil Service	-599,100	-619,161	-639,893	-661,320	-683,464	-706,349	-730,001	-754,445	-779,707	-805,816
Payroll	-258,568	-259,301	-260,036	-260,773	-261,513	-262,254	-262,998	-263,743	-264,491	-265,241
Regulatory Costs	0	0	0	0	0	0	0	0	0	0

### TOTAL: Commonwealth Transfers

	516,158,109	355,431,971	362,940,032	370,968,068	379,243,188	388,209,034	397,938,566	408,514,350	420,029,901	432,591,216
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### Transfers to Local Government

#### Local Sales Tax

#### License Fees to Municipalities

	Forecast 1997	Forecast 1998	Forecast 1999	Forecast 2000	Forecast 2001	Forecast 2002	Forecast 2003	Forecast 2004	Forecast 2005	Forecast 2006
Local Sales Tax	2,660,646	2,703,373	2,749,067	2,798,181	2,851,041	2,908,015	2,969,522	3,036,033	3,108,083	3,186,281
License Fees to Municipalities	4,725,276	4,692,685	4,640,479	4,598,652	4,557,203	4,516,128	4,475,422	4,435,084	4,395,109	4,355,494
<b>TOTAL: Local Government Transfers</b>	<b>7,385,922</b>	<b>7,396,058</b>	<b>7,389,546</b>	<b>7,396,833</b>	<b>7,408,244</b>	<b>7,424,143</b>	<b>7,444,944</b>	<b>7,471,117</b>	<b>7,503,192</b>	<b>7,541,775</b>



## Retail Franchise System - Royalty (28.8)

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### Descriptive Statistics:

Liquor Excise Tax:	18%
Wholesale Markup:	25% w, 18% sp
Expected Retail Markup:	25% w, 21% sp
Expected Number of Retail Outlets:	757

### Selected Economic Impacts

Average Impact on Spirits Prices (1st Year):	-1.52%
Average Impact on Wine Prices (1st Year):	-2.07%
"Up Front" Revenues: (based on franchise value of 28.8% of 1996 revenues)	\$198 million

### Revenue to Commonwealth Government - Scenario vs. Baseline (\$millions)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	10-yr Sum
Scenario	\$475.11	\$260.57	\$266.64	\$273.11	\$279.70	\$286.83	\$294.58	\$302.99	\$312.14	\$322.13	\$3,073.79
Baseline:	\$240.02	\$241.44	\$243.16	\$245.17	\$247.18	\$249.61	\$252.51	\$255.94	\$259.98	\$264.69	\$2,499.71
Differenc	\$235.09	\$19.13	\$23.47	\$27.94	\$32.52	\$37.23	\$42.06	\$47.04	\$52.17	\$57.44	\$574.09

# Privatization Analysis of the Pennsylvania Wine and Spirits Industry

## PLCB Summary

Franchise System - Royalty  
(28.8)

	Forecast 1997	Forecast 1998	Forecast 1999	Forecast 2000	Forecast 2001	Forecast 2002	Forecast 2003	Forecast 2004	Forecast 2005	Forecast 2006
<b>Operating Revenue</b>										
Liquor										
License Sales	106,993,719	107,187,641	107,452,266	107,746,994	108,052,028	108,367,370	108,693,023	109,028,992	109,375,282	109,731,699
Retail Sales	241,441,588	241,039,898	240,685,653	240,319,149	239,999,904	239,707,855	239,442,155	239,203,171	238,990,464	238,803,885
LESS: Pass-through Discounts	8,245,572	8,242,548	8,240,427	8,239,201	8,238,665	8,239,411	8,240,835	8,243,131	8,246,293	8,250,316
Wine										
License Sales	38,320,885	39,075,382	41,081,524	42,545,837	44,070,282	45,958,181	47,312,097	49,035,044	50,830,089	52,700,481
Retail Sales	185,997,129	192,337,359	198,923,284	205,784,951	212,934,530	220,364,776	228,149,046	236,241,336	244,878,310	253,489,332
LESS: Pass-through Discounts	5,309,914	5,492,058	5,881,242	5,878,324	6,083,855	6,297,600	6,520,541	6,752,882	6,995,040	7,247,457
Bottle Pick	7,240,929	7,469,380	7,896,958	7,938,760	8,166,073	8,441,068	8,704,007	8,975,137	9,254,712	9,542,986
Special Order	18,342,666	18,695,667	21,390,724	24,478,400	28,018,828	32,072,587	36,722,207	42,053,872	48,188,159	55,182,033
<b>SUBTOTAL</b>	<b>\$582,881,326</b>	<b>\$592,647,901</b>	<b>\$603,290,741</b>	<b>\$614,888,385</b>	<b>\$628,937,128</b>	<b>\$640,094,606</b>	<b>\$654,281,156</b>	<b>\$669,541,339</b>	<b>\$686,053,702</b>	<b>\$703,932,831</b>
<b>Agency Revenue</b>										
License Fees	0	0	0	0	0	0	0	0	0	0
Retail License fees	0	0	0	0	0	0	0	0	0	0
Wholesale License fees	0	0	0	0	0	0	0	0	0	0
Application fees	1,331,424	1,410,043	1,493,305	1,581,483	1,674,608	1,773,787	1,878,508	1,989,430	2,106,903	2,231,314
Transfer fees	808,024	815,853	823,758	831,740	839,799	847,936	856,152	864,447	872,823	881,280
Permit fees	4,850,036	5,024,789	5,205,840	5,393,413	5,587,745	5,789,080	5,997,668	6,213,772	6,437,663	6,669,621
Entertainment fees	650,613	646,240	641,889	637,191	632,713	628,288	623,853	619,470	615,117	610,785
Admin fees	1,718,772	1,688,794	1,658,339	1,630,397	1,601,960	1,574,019	1,546,566	1,519,591	1,493,087	1,467,045
Bond forfeiture	48,561	36,121	26,014	23,473	18,420	14,454	11,342	8,900	6,984	5,480
Franchise Fees	198,452,908	0	0	0	0	0	0	0	0	0
Franchise Royalty Fees	8,327,225	6,470,984	8,624,537	8,789,278	8,966,166	9,156,487	9,361,536	9,582,877	9,822,249	10,081,635
Interest Income	4,360,178	4,920,239	5,552,240	6,265,420	7,070,208	7,976,370	8,903,164	9,859,835	10,859,835	11,904,832
Enforcement fines	1,166,032	1,154,969	1,124,719	1,095,262	1,066,578	1,038,642	1,011,439	984,948	959,152	934,031
Miscellaneous revenue	1,230,439	1,325,968	1,426,908	1,539,643	1,659,390	1,786,219	1,927,049	2,076,657	2,237,661	2,411,621
<b>SUBTOTAL</b>	<b>\$222,984,431</b>	<b>\$25,493,979</b>	<b>\$26,584,278</b>	<b>\$27,767,498</b>	<b>\$29,117,665</b>	<b>\$30,589,240</b>	<b>\$32,217,298</b>	<b>\$34,019,727</b>	<b>\$36,016,490</b>	<b>\$38,230,075</b>
<b>TOTAL REVENUE</b>	<b>\$805,865,756</b>	<b>\$618,141,880</b>	<b>\$629,875,019</b>	<b>\$642,655,883</b>	<b>\$658,054,793</b>	<b>\$670,683,846</b>	<b>\$686,498,454</b>	<b>\$703,561,067</b>	<b>\$722,070,191</b>	<b>\$742,162,906</b>
<b>Operating Expenses</b>										
Cost of goods sold	454,103,437	461,805,084	469,631,143	478,249,298	487,516,644	497,497,725	508,285,603	519,903,083	532,504,133	546,175,508
Salaries and Benefits	0	0	0	0	0	0	0	0	0	0
Wage Employees	0	0	0	0	0	0	0	0	0	0
Salaried Employees	0	0	0	0	0	0	0	0	0	0
Management	0	0	0	0	0	0	0	0	0	0
Retail Agency Payments	0	0	0	0	0	0	0	0	0	0
Store Expenses	0	0	0	0	0	0	0	0	0	0
<b>SUBTOTAL</b>	<b>\$454,103,437</b>	<b>\$461,805,084</b>	<b>\$469,631,143</b>	<b>\$478,249,298</b>	<b>\$487,516,644</b>	<b>\$497,497,725</b>	<b>\$508,285,603</b>	<b>\$519,903,083</b>	<b>\$532,504,133</b>	<b>\$546,175,508</b>
<b>Agency Expenses</b>										
Stores and Purchasing Admin	1,898,193	1,726,374	1,755,663	1,766,125	1,817,630	1,850,851	1,885,268	1,921,158	1,958,615	1,997,732
Executive Expenses	1,114,655	1,153,581	1,193,916	1,235,715	1,279,033	1,323,920	1,370,462	1,418,095	1,468,894	1,520,526
Alcohol Education Expenses	868,000	891,980	916,739	946,302	974,891	1,003,931	1,034,049	1,065,071	1,097,023	1,129,934
Administration Expenses	19,981,483	20,215,377	20,490,800	20,768,446	21,109,102	21,453,656	21,823,098	22,216,536	22,641,191	23,092,418
Warehouse Contract	15,164,573	15,487,379	15,755,453	16,048,891	16,347,795	16,652,266	16,962,408	17,276,326	17,600,127	17,927,922
Police (Enforcement)	15,952,413	16,433,342	16,926,771	17,436,135	17,964,866	18,506,488	19,064,417	19,639,167	20,231,244	20,841,170
Other Agencies	2,100,000	1,750,000	1,350,000	1,000,000	1,030,000	1,060,900	1,092,727	1,125,509	1,159,274	1,194,052
Auditor General	4,823,138	4,623,138	4,623,138	4,623,138	4,623,138	4,623,138	4,623,138	4,623,138	4,623,138	4,623,138
Comptroller Operations	95,659	98,648	103,803	108,132	112,642	117,339	122,330	127,330	132,640	138,172
Treasury	48,580	47,085	47,595	48,111	48,633	49,160	49,693	50,232	50,778	51,327
General Services	105,724	108,284	112,922	116,704	120,611	124,650	128,824	133,137	137,595	142,203
Civil Service	45,630	45,759	45,889	46,019	46,149	46,280	46,411	46,543	46,675	46,807
Payroll Services	75,045	76,470	82,052	85,797	89,713	93,806	98,090	102,567	107,249	112,144
Office of Budget/Admin	20,794	18,839	17,068	15,483	14,009	12,892	11,499	10,417	9,438	8,551
Misc. Agencies	491,000	522,695	556,436	592,355	630,593	671,299	714,633	760,764	809,873	862,152
<b>SUBTOTAL</b>	<b>\$62,380,685</b>	<b>\$63,182,929</b>	<b>\$63,982,245</b>	<b>\$64,880,334</b>	<b>\$65,828,827</b>	<b>\$66,799,388</b>	<b>\$67,828,949</b>	<b>\$68,920,590</b>	<b>\$70,073,553</b>	<b>\$71,288,246</b>
<b>Privatization Transition Costs and Revenues</b>										
Proceeds from Warehouse and Inventory	\$52,460,257	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Sick and Annual Leave Payout	\$9,941,935	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Transition Store Expenses	\$10,252,129	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Re-employment Tax Credit	\$4,227,920	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unemployment Payment Costs	\$6,341,680	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>SUBTOTAL</b>	<b>-\$21,716,396</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>TOTAL EXPENSES</b>	<b>\$494,767,926</b>	<b>\$524,786,013</b>	<b>\$533,613,387</b>	<b>\$543,129,632</b>	<b>\$553,345,471</b>	<b>\$563,086,113</b>	<b>\$572,292,551</b>	<b>\$580,423,673</b>	<b>\$589,577,687</b>	<b>\$599,663,756</b>
Drug and Alcohol Program	\$1,309,144	\$1,348,419	\$1,388,671	\$1,429,537	\$1,471,013	\$1,513,107	\$1,555,823	\$1,600,063	\$1,645,835	\$1,703,157
<b>TOTAL PROFIT</b>	<b>\$309,586,880</b>	<b>\$89,007,448</b>	<b>\$84,872,781</b>	<b>\$89,526,251</b>	<b>\$100,858,087</b>	<b>\$104,076,078</b>	<b>\$107,922,716</b>	<b>\$111,527,311</b>	<b>\$115,834,120</b>	<b>\$120,589,103</b>

## State Transfers

Franchise System - Royalty  
(28.8)

### Transfers to the Commonwealth

#### Taxes

	Forecast 1997	Forecast 1998	Forecast 1999	Forecast 2000	Forecast 2001	Forecast 2002	Forecast 2003	Forecast 2004	Forecast 2005	Forecast 2006
Liquor Tax	103,579,289	105,332,674	107,206,521	109,216,369	111,375,190	113,697,637	118,200,287	118,901,916	121,823,818	124,990,170
Galloneage Tax	0	0	0	0	0	0	0	0	0	0
Sales Tax	49,963,350	50,825,784	51,747,340	52,735,658	53,797,118	54,938,924	56,169,227	57,497,260	58,933,492	60,489,812
Corporate Income Tax	0	0	0	0	0	0	0	0	0	0
Tax Enforcement	-418,563	-422,645	-427,006	-431,683	-438,706	-442,110	-447,932	-454,217	-461,014	-468,380
Police (Enforcement)	15,952,413	18,433,342	18,928,771	17,439,135	17,964,888	18,506,488	19,064,417	19,639,167	20,231,244	20,841,170
Drug and Alcohol Program	1,309,144	1,348,419	1,388,871	1,430,537	1,473,454	1,517,657	1,563,187	1,610,083	1,658,385	1,708,137
Profit Transfer to General Fund	309,568,686	92,007,448	94,872,761	97,923,714	100,856,067	104,078,078	107,622,716	111,527,311	115,834,120	120,591,013
IPO Proceeds	0									
Shifted Benefits Cost										
Annuitants Hospitalization	-3,983,355	-4,080,538	-4,180,134	-4,282,203	-4,386,808	-4,494,013	-4,603,883	-4,716,485	-4,831,889	-4,950,168
Civil Service	-599,100	-619,161	-639,893	-661,320	-683,464	-706,349	-730,001	-754,445	-779,707	-805,816
Payroll	-258,588	-259,301	-260,038	-260,773	-261,513	-262,254	-262,998	-263,743	-264,491	-265,241
Regulatory Costs	0	0	0	0	0	0	0	0	0	0

### TOTAL: Commonwealth Transfers

475,113,297	260,566,022	266,637,195	273,109,435	279,698,223	286,834,055	294,575,020	302,986,845	312,143,957	322,130,700
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### Transfers to Local Government

#### Local Sales Tax

#### License Fees to Municipalities

	Forecast 1997	Forecast 1998	Forecast 1999	Forecast 2000	Forecast 2001	Forecast 2002	Forecast 2003	Forecast 2004	Forecast 2005	Forecast 2006
Local Sales Tax	2,581,440	2,625,999	2,673,613	2,724,676	2,779,518	2,838,511	2,902,077	2,970,692	3,044,897	3,125,307
License Fees to Municipalities	4,725,278	4,682,685	4,640,479	4,598,652	4,557,203	4,516,128	4,475,422	4,435,084	4,395,109	4,355,494

### TOTAL: Local Government Transfers

7,306,715	7,308,684	7,314,091	7,323,328	7,336,721	7,354,639	7,377,499	7,405,776	7,440,006	7,480,801
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## Retail Franchise System - Royalty (40.0)

### Descriptive Statistics:

Liquor Excise Tax:	18%
Wholesale Markup:	25% w, 18% sp
Expected Retail Markup:	25% w, 21% sp
Expected Number of Retail Outlets:	757

### Selected Economic Impacts

Average Impact on Spirits Prices (1st Year):	-1.52%
Average Impact on Wine Prices (1st Year):	-2.07%
"Up Front" Revenues: (based on franchise value of 40.0% of 1996 revenues)	\$276 million

### Revenue to Commonwealth Government - Scenario vs. Baseline (\$millions)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	10-yr Sum
Scenario	\$552.29	\$260.57	\$266.64	\$273.11	\$279.70	\$286.83	\$294.58	\$302.99	\$312.14	\$322.13	\$3,150.97
Baseline:	\$240.02	\$241.44	\$243.16	\$245.17	\$247.18	\$249.61	\$252.51	\$255.94	\$259.98	\$264.69	\$2,499.71
Differenc	\$312.27	\$19.13	\$23.47	\$27.94	\$32.52	\$37.23	\$42.06	\$47.04	\$52.17	\$57.44	\$651.27



# Privatization Analysis of the Pennsylvania Wine and Spirits Industry

## PLCB Summary: Franchise System - Royalty (40.0)

	Forecast 1997	Forecast 1998	Forecast 1999	Forecast 2000	Forecast 2001	Forecast 2002	Forecast 2003	Forecast 2004	Forecast 2005	Forecast 2006
<b>Operating Revenue</b>										
Liquor										
License Sales	108,893,710	107,187,841	107,452,266	107,748,994	108,052,028	108,387,370	108,893,023	109,028,992	109,375,282	109,731,899
Retail Sales	241,441,586	241,039,696	240,685,953	240,319,149	239,999,904	239,707,655	239,442,155	239,203,171	238,990,484	238,803,885
LESS: Pass-through Discounts	6,245,572	6,242,548	6,240,427	6,239,201	6,238,865	6,239,411	6,240,835	6,243,131	6,246,293	6,250,318
<b>Wine</b>										
License Sales	36,320,885	39,675,362	41,081,524	42,545,637	44,070,282	45,658,161	47,312,097	49,035,044	50,830,089	52,700,481
Retail Sales	185,997,126	192,337,356	198,923,264	205,784,951	212,934,530	220,384,778	228,149,046	236,241,336	244,876,310	253,489,332
LESS: Pass-through Discounts	8,309,914	5,492,058	5,681,242	8,878,324	9,083,655	9,297,600	9,520,541	9,752,882	9,995,040	10,247,457
Bottle Pick	7,240,629	7,468,380	7,868,058	7,936,780	8,186,073	8,441,068	8,704,007	8,975,137	9,254,712	9,542,998
Special Order	10,342,666	18,895,687	21,390,724	24,478,400	28,018,828	32,072,587	36,722,207	42,053,872	48,188,159	55,182,033
<b>SUBTOTAL</b>	<b>\$562,881,328</b>	<b>\$592,847,901</b>	<b>\$603,290,741</b>	<b>\$614,896,385</b>	<b>\$628,937,126</b>	<b>\$640,084,606</b>	<b>\$654,261,156</b>	<b>\$669,541,339</b>	<b>\$688,053,702</b>	<b>\$703,932,831</b>
<b>Agency Revenue</b>										
License Fees	0	0	0	0	0	0	0	0	0	0
Retail License fees	0	0	0	0	0	0	0	0	0	0
Wholesale License fees	0	0	0	0	0	0	0	0	0	0
Application fees	1,331,424	1,410,043	1,493,305	1,581,483	1,674,868	1,773,787	1,878,506	1,989,430	2,106,903	2,231,314
Transfer fees	808,024	815,853	823,758	831,740	839,799	847,936	856,152	864,447	872,823	881,280
Permit fees	4,850,036	5,024,789	5,205,840	5,393,413	5,587,745	5,789,080	5,997,668	6,213,772	6,437,663	6,669,821
Entertainment fees	950,813	648,240	641,899	637,161	632,713	628,268	623,853	619,470	615,117	610,795
Admin fees	1,718,772	1,688,794	1,659,339	1,630,397	1,601,960	1,574,019	1,546,566	1,519,591	1,493,087	1,467,045
Bond forfeiture	48,581	38,121	29,914	23,473	18,420	14,484	11,342	8,900	6,984	5,480
Franchise Fees	278,629,036	0	0	0	0	0	0	0	0	0
Franchise Royalty Fees	8,327,225	8,470,964	8,624,557	8,789,278	8,968,188	9,156,487	9,351,538	9,552,249	9,758,240	9,964,835
Interest Income	4,360,178	4,920,239	5,552,240	6,265,420	7,070,270	7,978,370	9,003,184	10,159,835	11,464,632	12,937,253
Enforcement fines	1,186,032	1,154,969	1,124,719	1,095,292	1,066,576	1,038,842	1,011,439	984,948	959,152	934,031
Miscellaneous revenue	1,230,439	1,325,968	1,428,908	1,539,843	1,659,390	1,788,219	1,927,049	2,076,857	2,237,881	2,411,821
<b>SUBTOTAL</b>	<b>\$300,140,561</b>	<b>\$25,495,979</b>	<b>\$26,584,278</b>	<b>\$27,767,498</b>	<b>\$29,117,885</b>	<b>\$30,589,240</b>	<b>\$32,217,290</b>	<b>\$34,016,727</b>	<b>\$36,016,490</b>	<b>\$38,230,075</b>
<b>TOTAL REVENUE</b>	<b>\$862,921,889</b>	<b>\$618,143,880</b>	<b>\$629,875,019</b>	<b>\$642,663,883</b>	<b>\$658,054,991</b>	<b>\$670,673,846</b>	<b>\$686,478,446</b>	<b>\$703,558,067</b>	<b>\$722,070,191</b>	<b>\$742,162,906</b>
<b>Operating Expenses</b>										
Cost of goods sold	454,103,437	481,805,084	489,831,143	478,249,298	487,518,644	497,497,725	508,285,603	519,903,083	532,504,133	546,175,508
Salaries and Benefits	0	0	0	0	0	0	0	0	0	0
Wage Employees	0	0	0	0	0	0	0	0	0	0
Salaried Employees	0	0	0	0	0	0	0	0	0	0
Management	0	0	0	0	0	0	0	0	0	0
Retail Agency Payments	0	0	0	0	0	0	0	0	0	0
Store Expenses	0	0	0	0	0	0	0	0	0	0
<b>SUBTOTAL</b>	<b>\$454,103,437</b>	<b>\$481,805,084</b>	<b>\$489,831,143</b>	<b>\$478,249,298</b>	<b>\$487,518,644</b>	<b>\$497,497,725</b>	<b>\$508,285,603</b>	<b>\$519,903,083</b>	<b>\$532,504,133</b>	<b>\$546,175,508</b>
<b>Agency Expenses</b>										
Stores and Purchasing Admin	1,898,193	1,726,374	1,755,603	1,788,125	1,817,830	1,850,851	1,885,266	1,921,158	1,958,815	1,997,732
Executive Expenses	1,114,855	1,153,581	1,193,916	1,235,715	1,279,033	1,323,929	1,370,462	1,418,895	1,468,694	1,520,526
Alcohol Education Expenses	888,000	891,980	918,739	948,302	974,691	1,003,931	1,034,049	1,065,071	1,097,023	1,129,934
Administration Expenses	19,981,483	20,215,377	20,490,800	20,788,446	21,109,102	21,453,656	21,823,099	22,218,536	22,641,191	23,092,418
Warehouse Contract	15,184,573	15,487,378	15,755,453	16,048,991	16,347,795	16,652,268	16,962,408	17,278,326	17,600,127	17,927,922
Police (Enforcement)	15,952,413	16,433,342	16,928,771	17,439,135	17,964,886	18,508,486	19,064,417	19,639,187	20,231,244	20,841,170
Other Agencies	2,100,000	1,750,000	1,350,000	1,000,000	1,030,000	1,080,000	1,092,727	1,125,509	1,159,274	1,194,052
Auditor General	4,823,138	4,823,138	4,823,138	4,823,138	4,823,138	4,823,138	4,823,138	4,823,138	4,823,138	4,823,138
Comptroller Operations	95,659	99,848	103,803	108,132	112,642	117,339	122,233	127,330	132,640	138,172
Treasury	46,590	47,085	47,595	48,111	48,633	49,160	49,693	50,232	50,778	51,327
General Services	105,724	109,284	112,922	116,704	120,611	124,650	128,824	133,137	137,595	142,203
Civil Service	45,630	45,759	45,899	46,019	46,149	46,280	46,411	46,543	46,675	46,807
Payroll Services	75,045	78,470	82,052	85,797	89,713	93,808	98,090	102,567	107,249	112,144
Office of Budget/Admin	20,764	18,639	17,068	15,463	14,009	12,692	11,499	10,417	9,438	8,551
Misc. Agencies	491,000	522,895	556,436	592,355	630,593	671,299	714,833	760,764	809,873	862,152
<b>SUBTOTAL</b>	<b>\$62,380,685</b>	<b>\$63,182,929</b>	<b>\$63,932,245</b>	<b>\$64,850,334</b>	<b>\$65,825,471</b>	<b>\$66,850,388</b>	<b>\$67,928,949</b>	<b>\$69,050,590</b>	<b>\$70,217,553</b>	<b>\$71,428,218</b>
<b>Privatization Transition Costs and Revenues</b>										
Proceeds from Warehouse and Inventory	\$52,480,257	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Sick and Annual Leave Payout	\$9,941,935	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Transition Store Expenses	\$10,252,126	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Re-employment Tax Credit	\$4,227,920	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unemployment Payment Costs	\$8,341,680	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>SUBTOTAL</b>	<b>\$85,243,918</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>TOTAL EXPENSES</b>	<b>\$539,347,355</b>	<b>\$481,987,013</b>	<b>\$493,763,388</b>	<b>\$482,100,592</b>	<b>\$493,344,115</b>	<b>\$504,998,113</b>	<b>\$517,214,552</b>	<b>\$529,953,666</b>	<b>\$542,721,686</b>	<b>\$555,603,726</b>
<b>Drug and Alcohol Program</b>	<b>\$1,309,144</b>	<b>\$1,348,419</b>	<b>\$1,388,871</b>	<b>\$1,430,537</b>	<b>\$1,473,454</b>	<b>\$1,517,857</b>	<b>\$1,563,187</b>	<b>\$1,609,083</b>	<b>\$1,655,385</b>	<b>\$1,702,137</b>
<b>TOTAL PROFIT</b>	<b>\$323,574,534</b>	<b>\$136,156,867</b>	<b>\$136,111,626</b>	<b>\$160,563,291</b>	<b>\$165,710,516</b>	<b>\$163,085,718</b>	<b>\$169,253,769</b>	<b>\$173,654,484</b>	<b>\$177,346,508</b>	<b>\$180,559,179</b>

## Appendix II

Financial projections subject to the provisions contained in the inside cover page of this report.

## State Transfers

Franchise System -Royalty  
(40.0)

Transfers to the Commonwealth	Forecast 1997	Forecast 1998	Forecast 1999	Forecast 2000	Forecast 2001	Forecast 2002	Forecast 2003	Forecast 2004	Forecast 2005	Forecast 2006
<b>Taxes</b>										
Liquor Tax	103,579,289	105,332,674	107,206,521	109,216,369	111,375,190	113,697,637	116,200,287	118,901,916	121,823,818	124,990,170
Gallage Tax	0	0	0	0	0	0	0	0	0	0
Sales Tax	49,963,350	50,825,784	51,747,340	52,735,658	53,797,118	54,938,924	56,169,227	57,497,260	58,933,492	60,489,812
Corporate Income Tax	0	0	0	0	0	0	0	0	0	0
Tax Enforcement	-418,563	-422,645	-427,006	-431,683	-438,706	-442,110	-447,932	-454,217	-461,014	-468,380
Police (Enforcement)	15,952,413	16,433,342	16,928,771	17,439,135	17,964,888	18,506,488	19,064,417	19,639,167	20,231,244	20,841,170
Drug and Alcohol Program	1,309,144	1,348,419	1,388,871	1,430,537	1,473,454	1,517,657	1,563,187	1,610,083	1,658,385	1,708,137
Profit Transfer to General Fund	386,744,816	92,007,448	94,872,761	97,923,714	100,856,067	104,078,076	107,622,716	111,527,311	115,834,120	120,591,013
IPO Proceeds	0									
Shifted Benefits Cost										
Annuitants Hospitalization	-3,983,355	-4,080,538	-4,180,134	-4,282,203	-4,386,808	-4,494,013	-4,603,883	-4,716,485	-4,831,889	-4,950,166
Civil Service	-599,100	-619,161	-639,893	-661,320	-683,464	-706,349	-730,001	-754,445	-779,707	-805,816
Payroll	-258,568	-259,301	-260,036	-260,773	-261,513	-262,254	-262,998	-263,743	-264,491	-265,241
Regulatory Costs	0	0	0	0	0	0	0	0	0	0
<b>TOTAL: Commonwealth Transfers</b>	<b>552,289,427</b>	<b>260,566,022</b>	<b>266,637,195</b>	<b>273,109,435</b>	<b>279,698,223</b>	<b>286,834,055</b>	<b>294,575,020</b>	<b>302,986,845</b>	<b>312,143,957</b>	<b>322,130,700</b>
<b>Transfers to Local Government</b>										
Local Sales Tax	2,581,440	2,625,999	2,673,613	2,724,676	2,779,518	2,838,511	2,902,077	2,970,692	3,044,897	3,125,307
License Fees to Municipalities	4,725,276	4,682,685	4,640,479	4,598,652	4,557,203	4,516,128	4,475,422	4,435,084	4,395,109	4,355,494
<b>TOTAL: Local Government Transfers</b>	<b>7,306,715</b>	<b>7,308,684</b>	<b>7,314,091</b>	<b>7,323,328</b>	<b>7,338,721</b>	<b>7,354,639</b>	<b>7,377,499</b>	<b>7,405,776</b>	<b>7,440,006</b>	<b>7,480,801</b>

## Agency System - Low Commissions

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### Descriptive Statistics:

Liquor Excise Tax:	18%
Wholesale Markup:	30% + OCC
Expected Retail Markup:	-
Expected Number of Retail Outlets:	665
Agent Commissions:	6% retail, 4% licensee

### Selected Economic Impacts

Average Impact on Spirits Prices (1st Year):	-
Average Impact on Wine Prices (1st Year):	-
"Up Front" Revenues:	\$0

### Revenue to Commonwealth Government - Scenario vs. Baseline (\$millions)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	10-yr Sum
Scenario	\$308.97	\$344.30	\$349.26	\$354.59	\$359.99	\$365.90	\$372.35	\$379.41	\$387.15	\$395.62	\$3,617.54
Baseline:	\$240.02	\$241.44	\$243.16	\$245.17	\$247.18	\$249.61	\$252.51	\$255.94	\$259.98	\$264.69	\$2,499.71
Differenc	\$68.95	\$102.86	\$106.10	\$109.41	\$112.81	\$116.29	\$119.84	\$123.47	\$127.17	\$130.94	\$1,117.84



# Privatization Analysis of the Pennsylvania Wine and Spirits Industry

## PLCB Summary

### Agency Store System - Low Commission

	Forecast 1997	Forecast 1998	Forecast 1999	Forecast 2000	Forecast 2001	Forecast 2002	Forecast 2003	Forecast 2004	Forecast 2005	Forecast 2006
<b>Operating Revenue</b>										
Liquor										
License Sales	121,572,016	121,790,482	122,024,122	122,272,892	122,536,872	122,815,381	123,108,888	123,417,095	123,739,961	124,077,378
Retail Sales	297,072,939	296,452,160	295,689,785	295,325,235	294,816,083	294,347,846	293,914,086	293,514,342	293,154,342	292,827,578
LESS: Pass-through Discounts	9,809,898	9,900,374	9,892,119	9,885,116	9,878,357	9,874,823	9,871,503	9,868,385	9,866,458	9,866,710
<b>Wine</b>										
License Sales	44,857,093	46,180,537	47,725,639	48,336,248	51,015,277	52,765,765	54,590,961	56,494,140	58,476,810	60,546,815
Retail Sales	233,822,944	241,321,634	248,140,398	257,203,404	265,795,473	274,692,125	283,909,608	293,554,928	303,815,895	314,111,183
LESS: Pass-through Discounts	8,592,003	8,605,589	7,027,225	7,256,343	7,499,343	7,750,668	8,012,771	8,286,138	8,571,278	8,868,709
Bottle Pick	7,240,829	7,486,380	7,688,958	7,936,780	8,166,073	8,441,068	8,704,007	8,975,137	9,254,712	9,542,988
Special Order	15,968,601	17,975,366	20,625,306	23,649,922	27,168,824	31,189,823	35,812,338	41,120,992	47,238,460	54,267,397
<b>SUBTOTAL</b>	<b>\$703,332,324</b>	<b>\$714,480,816</b>	<b>\$726,184,845</b>	<b>\$736,093,019</b>	<b>\$752,141,501</b>	<b>\$766,596,520</b>	<b>\$782,155,591</b>	<b>\$798,926,150</b>	<b>\$817,042,445</b>	<b>\$836,837,709</b>
<b>Agency Revenue</b>										
License Fees										
Retail License fees	0	0	0	0	0	0	0	0	0	0
Wholesale License fees	0	0	0	0	0	0	0	0	0	0
Application fees	1,331,424	1,410,043	1,493,305	1,561,463	1,674,068	1,773,787	1,876,508	1,989,430	2,108,903	2,231,314
Transfer fees	808,024	815,853	823,750	831,740	839,799	847,936	856,152	864,447	872,823	881,280
Permit fees	4,850,036	5,024,789	5,205,840	5,393,413	5,587,745	5,789,080	5,997,688	6,213,772	6,437,063	6,669,821
Entertainment fees	650,813	846,240	641,698	637,191	632,713	628,268	623,853	619,470	615,117	610,795
Admin fees	1,718,772	1,886,784	1,659,339	1,830,397	1,601,960	1,574,019	1,548,566	1,519,591	1,493,087	1,467,045
Bond forfeiture	46,561	38,121	28,914	23,473	18,420	14,454	11,342	8,984	6,984	5,460
Franchise Fees	0	0	0	0	0	0	0	0	0	0
Franchise Royalty Fees	0	0	0	0	0	0	0	0	0	0
Interest Income	4,360,176	4,920,239	5,552,240	6,265,420	7,070,208	7,976,370	9,003,184	10,159,835	11,464,832	12,937,253
Enforcement fines	1,168,032	1,154,989	1,124,719	1,095,282	1,068,578	1,038,842	1,011,439	984,848	959,152	934,031
Miscellaneous revenue	1,230,439	1,325,966	1,426,908	1,539,843	1,659,360	1,788,219	1,927,049	2,076,657	2,237,881	2,411,821
<b>SUBTOTAL</b>	<b>\$18,184,300</b>	<b>\$17,023,015</b>	<b>\$17,959,722</b>	<b>\$18,998,222</b>	<b>\$20,151,879</b>	<b>\$21,432,753</b>	<b>\$22,855,758</b>	<b>\$24,436,851</b>	<b>\$26,184,241</b>	<b>\$28,148,440</b>
<b>TOTAL REVENUE</b>	<b>\$719,716,624</b>	<b>\$731,503,831</b>	<b>\$744,144,567</b>	<b>\$755,091,241</b>	<b>\$772,293,380</b>	<b>\$788,029,273</b>	<b>\$805,011,349</b>	<b>\$823,363,001</b>	<b>\$843,226,686</b>	<b>\$864,986,148</b>
<b>Operating Expenses</b>										
Cost of goods sold	448,531,165	457,160,951	468,373,902	478,224,837	486,774,792	498,084,053	510,261,321	523,366,055	537,509,831	552,808,123
Salaries and Benefits	0	0	0	0	0	0	0	0	0	0
Wage Employees	0	0	0	0	0	0	0	0	0	0
Self-employed Employees	0	0	0	0	0	0	0	0	0	0
Management	0	0	0	0	0	0	0	0	0	0
Retail Agency Payments	45,097,529	45,782,109	46,489,383	47,224,883	48,031,983	48,885,988	49,820,756	50,812,748	51,877,978	53,023,562
Store Expenses	0	0	0	0	0	0	0	0	0	0
<b>SUBTOTAL</b>	<b>\$493,628,714</b>	<b>\$502,943,061</b>	<b>\$512,863,285</b>	<b>\$523,449,720</b>	<b>\$534,806,785</b>	<b>\$546,969,752</b>	<b>\$560,082,077</b>	<b>\$574,178,803</b>	<b>\$589,387,807</b>	<b>\$605,831,685</b>
<b>Agency Expenses</b>										
Stores and Purchasing Admin	5,128,530	5,316,580	5,516,886	5,733,700	5,962,450	6,205,036	6,464,820	6,740,427	7,033,749	7,345,952
Executive Expenses	1,114,655	1,153,561	1,193,916	1,235,715	1,279,033	1,323,929	1,370,462	1,418,895	1,468,894	1,520,526
Alcohol Education Expenses	668,000	891,980	916,739	948,302	974,891	1,003,931	1,034,049	1,065,071	1,097,023	1,129,934
Administration Expenses	24,143,348	24,407,011	24,695,282	25,009,115	25,349,520	25,717,975	26,114,883	26,542,590	27,002,395	27,496,066
Warehouse Contract	15,184,573	15,467,379	15,755,453	16,048,891	16,347,795	16,652,266	16,962,408	17,278,328	17,600,127	17,927,922
Police (Enforcement)	15,952,413	16,433,342	16,926,771	17,439,135	17,964,866	18,506,468	19,064,417	19,639,187	20,231,244	20,841,170
Other Agencies	2,100,000	1,750,000	1,350,000	1,000,000	1,030,000	1,060,800	1,092,727	1,125,509	1,159,274	1,194,052
Auditor General	6,333,066	6,333,066	6,333,066	6,333,066	6,333,066	6,333,066	6,333,066	6,333,066	6,333,066	6,333,066
Comptroller Operations	95,659	99,846	103,603	108,132	112,842	117,339	122,233	127,330	132,840	138,172
Treasury	46,580	47,085	47,595	48,111	48,633	49,160	49,693	50,232	50,778	51,327
General Services	105,724	109,284	112,922	116,704	120,611	124,650	128,824	133,137	137,595	142,203
Civil Service	45,630	45,759	45,889	46,019	46,149	46,280	46,411	46,543	46,675	46,807
Payroll Services	75,045	76,470	82,052	87,977	94,713	93,680	98,090	102,567	107,249	112,144
Office of Budget/Admin	20,784	18,839	17,086	15,483	14,009	12,892	11,499	10,417	9,438	8,551
Misc. Agencies	491,000	522,695	556,436	592,355	630,593	671,269	714,633	760,784	809,873	862,152
<b>SUBTOTAL</b>	<b>\$711,701,012</b>	<b>\$722,674,676</b>	<b>\$733,859,888</b>	<b>\$747,558,505</b>	<b>\$763,303,791</b>	<b>\$777,919,320</b>	<b>\$793,808,215</b>	<b>\$813,373,840</b>	<b>\$832,219,818</b>	<b>\$851,150,045</b>
<b>Privatization Transition Costs and Revenues</b>										
Proceeds from Warehouse and Inventory	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Sick and Annual Leave Payout	\$9,841,935	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Transition Store Expenses	\$10,252,126	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unemployment Payment Costs	\$10,569,800	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>SUBTOTAL</b>	<b>\$30,763,861</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>TOTAL EXPENSES</b>	<b>\$596,093,567</b>	<b>\$575,597,736</b>	<b>\$566,502,953</b>	<b>\$568,207,825</b>	<b>\$581,110,576</b>	<b>\$592,809,072</b>	<b>\$603,690,291</b>	<b>\$615,552,644</b>	<b>\$627,607,825</b>	<b>\$640,981,730</b>
Drug and Alcohol Program	\$1,309,144	\$1,346,419	\$1,386,871	\$1,430,537	\$1,473,454	\$1,516,517	\$1,561,187	\$1,608,083	\$1,658,365	\$1,708,137
<b>TOTAL PROFIT</b>	<b>\$122,314,093</b>	<b>\$154,859,474</b>	<b>\$190,232,743</b>	<b>\$196,052,879</b>	<b>\$199,709,150</b>	<b>\$191,602,544</b>	<b>\$183,751,671</b>	<b>\$186,203,274</b>	<b>\$186,970,878</b>	<b>\$172,096,282</b>

## Appendix II

Financial projections subject to the provisions contained in the inside cover page of this report.



## State Transfers

Agency Store System - Low  
Commission

Transfers to the Commonwealth	Forecast 1997	Forecast 1998	Forecast 1999	Forecast 2000	Forecast 2001	Forecast 2002	Forecast 2003	Forecast 2004	Forecast 2005	Forecast 2006
<b>Taxes</b>										
Liquor Tax	125,332,505	127,262,562	129,323,860	131,535,763	133,911,977	136,467,981	139,221,285	142,191,722	145,401,792	148,877,048
Gallage Tax	0	0	0	0	0	0	0	0	0	0
Sales Tax	49,297,452	50,056,608	50,867,385	51,737,400	52,672,044	53,677,406	54,760,372	55,928,744	57,191,372	58,558,306
Corporate Income Tax	0	0	0	0	0	0	0	0	0	0
Tax Enforcement	-393,279	-396,872	-400,709	-404,826	-409,249	-414,007	-419,133	-424,662	-430,637	-437,106
Police (Enforcement)	15,952,413	16,433,342	16,928,771	17,439,135	17,964,886	18,506,488	19,064,417	19,639,167	20,231,244	20,841,170
Drug and Alcohol Program	1,309,144	1,348,419	1,388,871	1,430,537	1,473,454	1,517,657	1,563,187	1,610,083	1,658,385	1,708,137
Profit Transfer to General Fund	122,314,093	154,559,474	156,232,743	158,052,879	159,709,150	161,602,544	163,757,871	166,203,274	168,970,676	172,096,282
IPO Proceeds	0									
Shifted Benefits Cost										
Annuitants Hospitalization	-3,983,355	-4,080,538	-4,180,134	-4,282,203	-4,386,808	-4,494,013	-4,603,883	-4,716,485	-4,831,889	-4,950,166
Civil Service	-599,100	-618,161	-639,893	-661,320	-683,464	-706,349	-730,001	-754,445	-779,707	-805,816
Payroll	-258,568	-259,301	-260,036	-260,773	-261,513	-262,254	-262,998	-263,743	-264,491	-265,241
Regulatory Costs	0	0	0	0	0	0	0	0	0	0
<b>TOTAL: Commonwealth Transfers</b>	<b>306,971,305</b>	<b>344,304,534</b>	<b>349,260,857</b>	<b>354,586,592</b>	<b>359,990,478</b>	<b>365,895,453</b>	<b>372,351,116</b>	<b>379,413,655</b>	<b>387,146,743</b>	<b>395,622,615</b>

Transfers to Local Government	Forecast 1997	Forecast 1998	Forecast 1999	Forecast 2000	Forecast 2001	Forecast 2002	Forecast 2003	Forecast 2004	Forecast 2005	Forecast 2006
Local Sales Tax	2,547,035	2,586,258	2,628,148	2,673,099	2,721,389	2,773,333	2,829,286	2,889,652	2,954,888	3,025,512
License Fees to Municipalities	4,725,276	4,682,685	4,640,479	4,598,652	4,557,203	4,516,128	4,475,422	4,435,084	4,395,109	4,355,494
<b>TOTAL: Local Government Transfers</b>	<b>7,272,311</b>	<b>7,268,943</b>	<b>7,268,627</b>	<b>7,271,751</b>	<b>7,278,592</b>	<b>7,289,460</b>	<b>7,304,708</b>	<b>7,324,738</b>	<b>7,349,996</b>	<b>7,381,007</b>

## Agency System - Medium Commissions

### Descriptive Statistics:

Liquor Excise Tax:	18%
Wholesale Markup:	30% + OCC
Expected Retail Markup:	-
Expected Number of Retail Outlets:	665
Agent Commissions:	10% retail, 8% licensee

### Selected Economic Impacts

Average Impact on Spirits Prices (1st Year):	-
Average Impact on Wine Prices (1st Year):	-
"Up Front" Revenues:	\$0

### Revenue to Commonwealth Government - Scenario vs. Baseline (\$millions)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	10-yr Sum
Scenario	\$276.11	\$310.93	\$315.35	\$320.09	\$324.88	\$330.11	\$335.84	\$342.13	\$349.02	\$356.58	<b>\$3,261.05</b>
Baseline:	\$240.02	\$241.44	\$243.16	\$245.17	\$247.18	\$249.61	\$252.51	\$255.94	\$259.98	\$264.69	<b>\$2,499.71</b>
Differenc	\$36.09	\$69.49	\$72.19	\$74.92	\$77.70	\$80.50	\$83.33	\$86.18	\$89.04	\$91.90	<b>\$761.34</b>

# Privatization Analysis of the Pennsylvania Wine and Spirits Industry

## PLCB Summary:

Agency Store System - Medium Commission												
	Forecast 1997	Forecast 1998	Forecast 1999	Forecast 2000	Forecast 2001	Forecast 2002	Forecast 2003	Forecast 2004	Forecast 2005	Forecast 2006		
Operating Revenue												
Liquor												
License Sales	121,572,016	121,790,482	122,024,122	122,272,892	122,538,872	122,815,361	123,108,886	123,417,095	123,739,961	124,077,378		
Retail Sales	297,072,939	290,452,190	295,699,765	295,325,235	294,347,848	294,347,848	293,914,086	293,516,384	293,154,342	292,827,578		
LESS: Pass-through Discounts	9,908,698	9,900,374	9,892,119	9,885,118	9,879,357	9,874,823	9,871,503	9,868,385	9,865,458	9,862,710		
Wine												
License Sales	44,657,093	46,180,537	47,725,639	49,336,246	51,015,277	52,765,785	54,590,961	56,494,140	58,476,810	60,546,615		
Retail Sales	233,822,944	241,321,634	249,140,399	257,293,404	265,795,473	274,682,125	283,909,606	293,554,926	303,615,695	314,111,163		
LESS: Pass-through Discounts	6,592,003	6,605,568	7,027,225	7,256,343	7,499,343	7,750,868	8,012,771	8,286,139	8,571,276	8,866,709		
Bottle Pick	7,240,829	7,466,390	7,698,958	7,938,760	8,186,073	8,441,068	8,704,007	8,975,137	9,254,712	9,542,998		
Special Order	15,668,601	17,975,368	20,625,308	23,069,922	27,188,824	31,189,823	35,812,336	41,126,992	47,238,460	54,267,397		
SUBTOTAL	\$703,532,524	\$714,480,616	\$726,104,845	\$738,693,019	\$752,141,501	\$766,596,520	\$782,155,591	\$798,928,150	\$817,042,445	\$836,637,709		
Agency Revenue												
License Fees												
Retail License fees	0	0	0	0	0	0	0	0	0	0	0	0
Wholesale License fees	0	0	0	0	0	0	0	0	0	0	0	0
Application fee	1,331,424	1,410,043	1,493,305	1,581,483	1,674,868	1,773,767	1,878,506	1,989,430	2,106,903	2,231,314		
Transfer fees	608,024	615,853	623,758	631,740	639,769	647,836	655,952	664,117	672,353	680,650		
Permit fees	4,850,036	5,024,789	5,205,840	5,393,413	5,587,745	5,789,080	5,997,668	6,213,772	6,437,663	6,669,621		
Entertainment fees	650,813	648,240	641,899	637,191	632,713	628,268	623,853	619,470	615,117	610,785		
Admin fees	1,718,772	1,688,784	1,659,339	1,630,397	1,601,960	1,574,019	1,546,566	1,519,591	1,493,087	1,467,045		
Bond forfeiture	48,581	38,121	29,914	23,473	18,420	14,454	11,342	8,900	6,984	5,460		
Franchise Fees	0	0	0	0	0	0	0	0	0	0	0	0
Franchise Royalty Fees	0	0	0	0	0	0	0	0	0	0	0	0
Interest Income	4,380,176	4,020,239	5,552,240	6,265,420	7,070,208	7,978,370	9,003,164	10,159,635	11,484,632	12,937,253		
Enforcement fines	1,186,032	1,154,969	1,124,719	1,095,262	1,066,578	1,038,842	1,011,939	984,948	958,152	934,031		
Miscellaneous revenue	1,230,439	1,325,966	1,428,908	1,539,843	1,659,390	1,788,219	1,927,049	2,076,657	2,237,861	2,411,821		
SUBTOTAL	\$19,184,300	\$17,025,015	\$17,959,722	\$18,998,222	\$20,151,679	\$21,432,753	\$22,855,759	\$24,436,951	\$26,184,241	\$28,146,440		
TOTAL REVENUE	\$710,716,824	\$731,605,631	\$744,124,567	\$757,691,241	\$772,293,180	\$788,029,273	\$805,011,349	\$823,365,101	\$843,226,686	\$864,784,148		
Operating Expenses												
Cost of goods sold	448,531,185	457,180,951	466,373,902	476,224,637	486,774,792	498,084,053	510,261,321	523,366,055	537,508,831	552,808,123		
Salaries and Benefits	0	0	0	0	0	0	0	0	0	0	0	0
Wage Employees	0	0	0	0	0	0	0	0	0	0	0	0
Salaried Employees	0	0	0	0	0	0	0	0	0	0	0	0
Management	0	0	0	0	0	0	0	0	0	0	0	0
Retail Agency Payment	77,962,497	79,133,181	80,380,953	81,718,263	83,148,689	84,680,636	86,327,671	88,088,578	90,005,557	92,062,432		
Store Expenses	0	0	0	0	0	0	0	0	0	0	0	0
SUBTOTAL	\$526,493,682	\$536,284,133	\$546,754,855	\$557,942,919	\$569,921,481	\$582,774,689	\$596,588,991	\$611,464,633	\$627,515,388	\$644,670,555		
Agency Expenses												
Stores and Purchasing Admin	5,126,530	5,316,560	5,518,666	5,733,700	5,962,450	6,205,836	6,464,820	6,740,427	7,033,749	7,345,952		
Executive Expenses	1,114,655	1,153,581	1,193,916	1,235,715	1,279,033	1,323,929	1,370,462	1,418,695	1,468,604	1,520,528		
Alcohol Education Expenses	866,000	891,980	916,739	946,302	974,891	1,003,931	1,034,049	1,065,071	1,097,023	1,129,934		
Administration Expenses	24,143,346	24,407,011	24,695,292	25,009,115	25,349,520	25,717,875	26,114,883	26,542,590	27,002,395	27,496,066		
Warehouse Contract	15,184,573	15,487,379	15,755,453	16,048,891	16,347,795	16,652,266	16,962,408	17,278,326	17,600,127	17,927,922		
Police (Enforcement)	15,952,413	16,433,342	16,926,771	17,439,135	17,964,869	18,506,488	19,064,417	19,639,187	20,231,244	20,841,170		
Other Agencies												
Auditor General	2,100,000	1,750,000	1,350,000	1,000,000	1,030,000	1,060,000	1,092,727	1,125,509	1,159,274	1,194,052		
Comptroller Operations	6,333,066	6,333,066	6,333,066	6,333,066	6,333,066	6,333,066	6,333,066	6,333,066	6,333,066	6,333,066		
Treasury	95,859	99,848	103,803	108,132	112,842	117,339	122,233	127,330	132,640	138,172		
General Services	46,580	47,085	47,595	48,111	48,633	49,160	49,693	50,232	50,776	51,327		
Civil Service	105,724	109,204	112,922	116,704	120,611	124,650	128,824	133,137	137,595	142,203		
Payroll Services	45,630	46,759	47,889	49,019	50,149	51,280	52,411	53,543	54,675	55,807		
Office of Budget/Admin	75,045	78,470	82,052	85,797	89,713	93,808	98,090	102,567	107,249	112,144		
Misc. Agencies	20,784	18,639	17,068	15,463	14,009	12,892	11,499	10,417	9,436	8,551		
BMS Services	491,000	522,895	556,436	592,355	630,593	671,299	714,633	760,784	809,873	862,152		
SUBTOTAL	\$711,701,012	\$726,674,678	\$743,659,688	\$762,756,505	\$783,903,791	\$807,919,320	\$834,906,215	\$863,973,840	\$895,216,618	\$928,550,045		
Privatization Transition Costs and Revenues												
Proceeds from Warehouse and Inventory	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Sick and Annual Leave Payout	\$9,641,935	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Transition Store Expenses	\$10,252,126	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unemployment Payment Costs	\$10,889,800	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
SUBTOTAL	\$30,783,861	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
TOTAL EXPENSES	\$620,958,555	\$606,988,810	\$620,414,543	\$632,699,425	\$646,225,272	\$660,684,009	\$676,197,206	\$692,838,473	\$710,735,207	\$730,070,600		
Drug and Alcohol Program	\$1,309,144	\$1,348,419	\$1,388,871	\$1,430,537	\$1,473,454	\$1,517,657	\$1,563,187	\$1,610,063	\$1,658,385	\$1,708,137		
TOTAL PROFIT	\$89,449,125	\$121,188,402	\$122,321,153	\$123,561,278	\$124,904,454	\$126,317,607	\$127,750,956	\$129,217,445	\$130,716,418	\$132,247,412		

## Appendix II

Financial projections subject to the provisions contained in the inside cover page of this report.

## State Transfers

Agency Store System -  
Medium Commission

Transfers to the Commonwealth	Forecast 1997	Forecast 1998	Forecast 1999	Forecast 2000	Forecast 2001	Forecast 2002	Forecast 2003	Forecast 2004	Forecast 2005	Forecast 2006
<b>Taxes</b>										
Liquor Tax	125,332,505	127,262,562	129,323,860	131,535,763	133,911,977	136,467,981	139,221,285	142,191,722	145,401,792	148,877,048
Galloneage Tax	0	0	0	0	0	0	0	0	0	0
Sales Tax	49,297,452	50,056,608	50,867,385	51,737,400	52,672,044	53,677,406	54,760,372	55,928,744	57,191,372	58,558,306
Corporate Income Tax	0	0	0	0	0	0	0	0	0	0
Tax Enforcement	-393,279	-396,872	-400,709	-404,826	-409,249	-414,007	-419,133	-424,662	-430,637	-437,106
Police (Enforcement)	15,952,413	16,433,342	16,928,771	17,439,135	17,964,886	18,506,488	19,064,417	19,639,167	20,231,244	20,841,170
Drug and Alcohol Program	1,309,144	1,348,419	1,388,871	1,430,537	1,473,454	1,517,657	1,563,187	1,610,083	1,658,385	1,708,137
Profit Transfer to General Fund	89,449,125	121,188,402	122,321,153	123,561,278	124,594,454	125,817,607	127,250,956	128,917,445	130,843,095	133,057,412
IPO Proceeds	0									
Shifted Benefits Cost										
Annuitants Hospitalization	-3,983,355	-4,080,538	-4,180,134	-4,282,203	-4,386,808	-4,494,013	-4,603,883	-4,716,485	-4,831,889	-4,950,166
Civil Service	-599,100	-619,161	-639,893	-661,320	-683,464	-706,349	-730,001	-754,445	-779,707	-805,816
Payroll	-258,568	-259,301	-260,036	-260,773	-261,513	-262,254	-262,998	-263,743	-264,491	-265,241
Regulatory Costs	0	0	0	0	0	0	0	0	0	0
<b>TOTAL: Commonwealth Transfers</b>	<b>276,106,337</b>	<b>310,933,462</b>	<b>315,349,267</b>	<b>320,094,992</b>	<b>324,875,781</b>	<b>330,110,515</b>	<b>335,844,203</b>	<b>342,127,825</b>	<b>349,019,162</b>	<b>356,583,744</b>
<b>Transfers to Local Government</b>										
Local Sales Tax	2,547,035	2,586,258	2,628,148	2,673,099	2,721,389	2,773,333	2,829,286	2,889,652	2,954,888	3,025,512
License Fees to Municipalities	4,725,276	4,682,685	4,640,479	4,598,652	4,557,203	4,518,128	4,475,422	4,435,084	4,395,109	4,355,494
<b>TOTAL: Local Government Transfers</b>	<b>7,272,311</b>	<b>7,268,943</b>	<b>7,268,627</b>	<b>7,271,751</b>	<b>7,278,592</b>	<b>7,289,460</b>	<b>7,304,708</b>	<b>7,324,736</b>	<b>7,349,996</b>	<b>7,381,007</b>



## Agency System - High Commissions

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### Descriptive Statistics:

Liquor Excise Tax:	18%
Wholesale Markup:	30% + OCC
Expected Retail Markup:	-
Expected Number of Retail Outlets:	665
Agent Commissions: 20% retail, 16% licensee	

### Selected Economic Impacts

Average Impact on Spirits Prices (1st Year):	-
Average Impact on Wine Prices (1st Year):	-
"Up Front" Revenues:	\$0

### Revenue to Commonwealth Government - Scenario vs. Baseline (\$millions)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	10-yr Sum
Scenario	\$198.14	\$231.80	\$234.97	\$238.38	\$241.73	\$245.43	\$249.52	\$254.03	\$259.01	\$264.52	\$2,417.53
Baseline:	\$240.02	\$241.44	\$243.16	\$245.17	\$247.18	\$249.61	\$252.51	\$255.94	\$259.98	\$264.69	\$2,499.71
Differenc	(\$41.88)	(\$9.64)	(\$8.19)	(\$6.79)	(\$5.45)	(\$4.18)	(\$2.99)	(\$1.92)	(\$0.96)	(\$0.17)	(\$82.17)

# Privatization Analysis of the Pennsylvania Wine and Spirits Industry

## PLCB Summary

### Agency Store System - High Commission

	Forecast 1997	Forecast 1998	Forecast 1999	Forecast 2000	Forecast 2001	Forecast 2002	Forecast 2003	Forecast 2004	Forecast 2005	Forecast 2006
<b>Operating Revenue</b>										
Liquor										
Liquor Sales	121,572,016	121,790,462	122,024,122	122,272,892	122,536,672	122,815,361	123,108,866	123,417,095	123,739,961	124,077,378
Retail Sales	297,072,939	298,452,190	299,869,785	299,325,235	299,816,083	299,347,846	299,918,066	299,518,384	299,154,342	298,827,576
LESS: Pass-through Discounts	9,909,696	9,900,374	9,892,119	9,885,116	9,876,357	9,874,823	9,871,503	9,869,385	9,868,456	9,868,710
Wine										
Liquor Sales	44,837,093	46,190,537	47,725,839	49,336,246	51,015,277	52,785,785	54,590,961	56,464,140	58,478,610	60,540,815
Retail Sales	233,822,944	241,321,634	249,140,399	257,293,404	265,795,473	274,682,125	283,909,606	293,554,926	303,615,895	314,111,183
LESS: Pass-through Discounts	6,592,003	6,805,569	7,027,225	7,256,343	7,499,343	7,750,866	8,012,771	8,286,139	8,571,278	8,866,709
Bottle Pick	7,240,829	7,466,360	7,696,958	7,938,780	8,186,073	8,441,066	8,704,007	8,975,137	9,254,712	9,542,996
Special Order	15,668,801	17,975,366	20,825,306	23,689,922	27,188,824	31,189,823	35,812,338	41,126,992	47,238,480	54,287,397
<b>SUBTOTAL</b>	<b>\$703,532,524</b>	<b>\$714,490,616</b>	<b>\$726,184,845</b>	<b>\$738,893,019</b>	<b>\$752,141,501</b>	<b>\$766,596,520</b>	<b>\$782,155,591</b>	<b>\$798,929,150</b>	<b>\$817,042,445</b>	<b>\$836,637,709</b>
<b>Agency Revenue</b>										
License Fees	0	0	0	0	0	0	0	0	0	0
Retail License fees	0	0	0	0	0	0	0	0	0	0
Wholesale License fees	1,331,424	1,410,043	1,493,305	1,561,483	1,674,648	1,773,787	1,878,508	1,989,430	2,106,903	2,231,314
Application fees	808,024	815,853	823,758	831,740	839,789	847,936	856,152	864,447	872,823	881,280
Transfer fees	4,850,056	5,024,789	5,205,840	5,393,413	5,587,745	5,788,080	5,997,868	6,213,772	6,437,663	6,669,821
Permit fees	650,813	646,240	641,699	637,191	632,713	628,268	623,853	619,470	615,117	610,795
Entertainment fees	1,718,772	1,688,704	1,659,339	1,630,397	1,601,960	1,574,019	1,546,568	1,519,591	1,493,087	1,467,045
Admin fees	46,591	36,121	26,914	23,473	16,420	14,454	11,342	8,900	6,984	5,460
Bond forfeiture	0	0	0	0	0	0	0	0	0	0
Franchise Fees	0	0	0	0	0	0	0	0	0	0
Franchise Royalty Fees	0	0	0	0	0	0	0	0	0	0
Interest Income	4,360,178	4,920,239	5,552,420	6,265,420	7,070,208	7,976,370	9,003,164	10,159,635	11,464,832	12,937,253
Enforcement fines	1,166,032	1,154,969	1,124,719	1,095,282	1,066,576	1,036,842	1,011,439	984,848	959,152	934,031
Miscellaneous revenue	1,230,439	1,325,968	1,426,908	1,539,843	1,659,390	1,788,219	1,927,049	2,076,857	2,237,881	2,411,821
<b>SUBTOTAL</b>	<b>\$16,184,300</b>	<b>\$17,025,015</b>	<b>\$17,959,722</b>	<b>\$18,998,222</b>	<b>\$20,151,676</b>	<b>\$21,432,753</b>	<b>\$22,855,758</b>	<b>\$24,430,851</b>	<b>\$26,164,241</b>	<b>\$28,148,440</b>
<b>TOTAL REVENUE</b>	<b>\$719,716,824</b>	<b>\$731,505,631</b>	<b>\$744,144,567</b>	<b>\$757,891,241</b>	<b>\$772,293,180</b>	<b>\$788,029,273</b>	<b>\$805,011,349</b>	<b>\$823,360,001</b>	<b>\$843,236,686</b>	<b>\$864,786,148</b>
<b>Operating Expenses</b>										
Cost of goods sold	448,531,185	457,180,951	466,373,902	476,224,837	486,774,792	498,094,053	510,261,321	523,368,055	537,509,631	552,808,123
Salaries and Benefits	0	0	0	0	0	0	0	0	0	0
Wage Employees	0	0	0	0	0	0	0	0	0	0
Selected Employees	0	0	0	0	0	0	0	0	0	0
Management	0	0	0	0	0	0	0	0	0	0
Retail Agency Payments	155,924,994	158,266,362	160,761,906	163,432,566	166,283,376	169,361,272	172,655,341	176,197,156	180,011,115	184,124,865
Store Expenses	0	0	0	0	0	0	0	0	0	0
<b>SUBTOTAL</b>	<b>\$604,456,179</b>	<b>\$615,427,314</b>	<b>\$627,135,808</b>	<b>\$639,657,202</b>	<b>\$653,058,170</b>	<b>\$667,455,325</b>	<b>\$682,916,662</b>	<b>\$699,563,211</b>	<b>\$717,520,746</b>	<b>\$736,932,988</b>
<b>Agency Expenses</b>										
Stores and Purchasing Admin	5,126,530	5,316,560	5,516,666	5,733,700	5,962,450	6,205,836	6,464,820	6,740,427	7,033,749	7,345,952
Executive Expenses	1,114,855	1,153,561	1,193,918	1,235,715	1,279,033	1,323,929	1,370,462	1,418,895	1,468,694	1,520,528
Alcohol Education Expenses	866,000	891,980	918,739	946,302	974,691	1,003,931	1,034,049	1,065,071	1,097,023	1,129,934
Administration Expenses	24,143,348	24,407,011	24,685,292	25,009,115	25,349,520	25,717,875	26,114,883	26,542,590	27,002,395	27,496,066
Warehouse Contract	15,184,573	15,487,376	15,755,453	16,048,891	16,347,795	16,652,266	16,962,408	17,278,326	17,600,127	17,927,922
Police (Enforcement)	15,952,413	16,433,342	16,926,771	17,439,135	17,964,686	18,506,488	19,064,417	19,639,187	20,231,244	20,841,170
Other Agencies	2,100,000	1,750,000	1,350,000	1,000,000	1,030,000	1,060,900	1,092,727	1,125,509	1,159,274	1,194,032
Auditor General	6,333,066	6,333,066	6,333,066	6,333,066	6,333,066	6,333,066	6,333,066	6,333,066	6,333,066	6,333,066
Comptroller Operations	95,659	99,848	103,803	108,132	112,842	117,339	122,233	127,330	132,640	138,172
Treasury	46,560	47,085	47,595	48,111	48,633	49,160	49,693	50,232	50,776	51,327
General Services	105,724	109,264	112,922	116,704	120,811	124,850	128,924	133,137	137,595	142,203
Child Service	45,630	45,759	45,889	46,019	46,149	46,280	46,411	46,543	46,675	46,807
Payroll Services	75,045	76,470	77,922	79,397	80,891	82,405	83,928	85,460	86,999	88,544
Office of Budget/Admin	20,794	18,839	17,068	15,483	14,008	12,892	11,499	10,417	9,438	8,551
Misc. Agencies	491,000	522,895	556,436	592,355	630,593	671,299	714,833	760,784	809,873	862,152
<b>SUBTOTAL</b>	<b>\$71,701,012</b>	<b>\$72,674,678</b>	<b>\$73,659,888</b>	<b>\$74,658,505</b>	<b>\$75,673,791</b>	<b>\$76,719,320</b>	<b>\$77,796,215</b>	<b>\$78,903,640</b>	<b>\$80,041,816</b>	<b>\$81,219,045</b>
<b>Privatization Transition Costs and Revenues</b>										
Proceeds from Warehouse and Inventory	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Sick and Annual Leave Payout	\$9,941,935	\$1,346,419	\$1,368,871	\$1,430,537	\$1,473,454	\$1,517,657	\$1,563,187	\$1,610,083	\$1,658,385	\$1,708,137
Transition Store Expenses	\$10,252,126	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unemployment Payment Costs	\$10,569,800	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>SUBTOTAL</b>	<b>\$30,763,861</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>TOTAL EXPENSES</b>	<b>\$706,921,052</b>	<b>\$688,101,991</b>	<b>\$700,795,495</b>	<b>\$714,415,707</b>	<b>\$729,371,961</b>	<b>\$745,374,645</b>	<b>\$762,524,876</b>	<b>\$780,637,051</b>	<b>\$800,740,764</b>	<b>\$822,083,032</b>
<b>Drug and Alcohol Program</b>	<b>\$1,309,144</b>	<b>\$1,346,419</b>	<b>\$1,368,871</b>	<b>\$1,430,537</b>	<b>\$1,473,454</b>	<b>\$1,517,657</b>	<b>\$1,563,187</b>	<b>\$1,610,083</b>	<b>\$1,658,385</b>	<b>\$1,708,137</b>
<b>TOTAL PROFIT</b>	<b>\$11,466,626</b>	<b>\$42,055,221</b>	<b>\$41,940,200</b>	<b>\$41,844,998</b>	<b>\$41,447,765</b>	<b>\$41,136,971</b>	<b>\$40,923,285</b>	<b>\$40,816,667</b>	<b>\$40,637,537</b>	<b>\$40,694,979</b>

## Appendix II

Financial projections subject to the provisions contained in the inside cover page of this report.

## State Transfers

### Agency Store System - High Commission

Transfers to the Commonwealth	Forecast 1997	Forecast 1998	Forecast 1999	Forecast 2000	Forecast 2001	Forecast 2002	Forecast 2003	Forecast 2004	Forecast 2005	Forecast 2006
<b>Taxes</b>										
Liquor Tax	125,332,505	127,262,562	129,323,860	131,535,763	133,911,977	136,467,981	139,221,285	142,191,722	145,401,792	148,877,048
Galloneage Tax	0	0	0	0	0	0	0	0	0	0
Sales Tax	49,297,452	50,056,608	50,867,385	51,737,400	52,672,044	53,677,406	54,760,372	55,928,744	57,191,372	58,558,306
Corporate Income Tax	0	0	0	0	0	0	0	0	0	0
Tax Enforcement	-393,279	-396,872	-400,709	-404,826	-409,249	-414,007	-419,133	-424,662	-430,637	-437,106
Police (Enforcement)	15,952,413	16,433,342	16,928,771	17,439,135	17,964,886	18,506,488	19,064,417	19,639,167	20,231,244	20,841,170
Drug and Alcohol Program	1,309,144	1,348,419	1,388,871	1,430,537	1,473,454	1,517,657	1,563,187	1,610,083	1,658,385	1,708,137
Profit Transfer to General Fund	11,486,628	42,055,221	41,940,200	41,844,996	41,447,765	41,136,971	40,923,285	40,818,867	40,837,537	40,994,979
IPO Proceeds	0									
Shifted Benefits Cost										
Annuitants Hospitalization	-3,983,355	-4,080,538	-4,180,134	-4,282,203	-4,386,808	-4,494,013	-4,603,883	-4,716,485	-4,831,889	-4,950,166
Civil Service	-599,100	-619,161	-639,893	-661,320	-683,464	-706,349	-730,001	-754,445	-779,707	-805,816
Payroll	-258,568	-259,301	-260,036	-260,773	-261,513	-262,254	-262,998	-263,743	-264,491	-265,241
Regulatory Costs	0	0	0	0	0	0	0	0	0	0
<b>TOTAL: Commonwealth Transfers</b>	<b>198,143,840</b>	<b>231,800,281</b>	<b>234,968,314</b>	<b>238,378,709</b>	<b>241,729,093</b>	<b>245,429,880</b>	<b>249,516,532</b>	<b>254,029,247</b>	<b>259,013,604</b>	<b>264,521,312</b>
<b>Transfers to Local Government</b>										
Local Sales Tax	2,547,035	2,588,258	2,628,148	2,673,099	2,721,389	2,773,333	2,829,286	2,889,652	2,954,888	3,025,512
License Fees to Municipalities	4,725,276	4,682,685	4,640,479	4,598,652	4,557,203	4,516,128	4,475,422	4,435,084	4,395,109	4,355,494
<b>TOTAL: Local Government Transfers</b>	<b>7,272,311</b>	<b>7,268,943</b>	<b>7,268,627</b>	<b>7,271,751</b>	<b>7,278,592</b>	<b>7,289,460</b>	<b>7,304,708</b>	<b>7,324,736</b>	<b>7,349,996</b>	<b>7,381,007</b>

## Wine Only, License System - Low Control

### Descriptive Statistics:

Liquor Excise Tax:	18%
Wholesale Markup:	27% w, 30% + OCC sp
Expected Retail Markup:	22% w, 0% sp
Expected No. Retail Outlets:	6,880 w, 665 sp

### Selected Economic Impacts

Average Impact on Spirits Prices (1st Year):	-
Average Impact on Wine Prices (1st Year):	-2.89%
"Up Front" Revenues:	\$0

### Revenue to Commonwealth Government - Scenario vs. Baseline (\$millions)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	10-yr Sum
Scenario	\$204.04	\$212.43	\$214.33	\$216.52	\$218.72	\$221.35	\$224.46	\$228.11	\$232.37	\$237.32	\$2,209.63
Baseline:	\$240.02	\$241.44	\$243.16	\$245.17	\$247.18	\$249.61	\$252.51	\$255.94	\$259.98	\$264.69	\$2,499.71
Differenc	(\$35.98)	(\$29.01)	(\$28.83)	(\$28.65)	(\$28.46)	(\$28.26)	(\$28.06)	(\$27.84)	(\$27.61)	(\$27.37)	(\$290.07)



# Privatization Analysis of the Pennsylvania Wine and Spirits Industry

## PLCB Summary

Wine Only, License System - Low Control

	Forecast 1997	Forecast 1998	Forecast 1999	Forecast 2000	Forecast 2001	Forecast 2002	Forecast 2003	Forecast 2004	Forecast 2005	Forecast 2006
<b>Operating Revenue</b>										
Liquor										
License Sales	121,572,016	121,790,402	122,024,122	122,272,892	122,538,872	122,815,361	123,108,866	123,417,095	123,739,861	124,077,376
Retail Sales	297,072,939	298,452,160	299,689,785	299,325,235	294,816,083	284,347,846	293,914,066	293,817,364	293,154,342	292,827,578
LESS: Pass-through Discounts	9,909,898	9,900,374	9,892,119	9,885,118	9,870,357	9,874,823	9,871,503	9,869,365	9,868,458	9,866,710
<b>Wine</b>										
License Sales	39,145,273	40,331,028	41,969,773	43,497,863	45,027,841	46,652,773	48,345,251	50,108,399	51,945,360	53,859,501
Retail Sales	169,998,438	169,485,439	203,224,331	210,245,591	217,501,655	225,165,612	233,131,135	241,412,556	250,044,891	259,043,875
LESS: Pass-through Discounts	5,424,145	5,610,503	6,004,079	6,005,744	6,215,854	6,334,766	6,602,930	6,900,899	7,148,522	7,408,850
Bottle Pick	7,240,829	7,466,380	7,896,956	7,938,760	8,166,073	8,441,068	8,704,007	8,975,137	9,254,712	9,542,998
Special Order	16,543,085	16,947,286	21,703,027	24,663,166	28,487,890	32,645,433	37,415,837	42,889,410	49,171,555	56,382,840
<b>SUBTOTAL</b>	<b>\$656,238,539</b>	<b>\$666,161,879</b>	<b>\$676,793,778</b>	<b>\$686,222,876</b>	<b>\$700,522,901</b>	<b>\$713,778,466</b>	<b>\$728,084,549</b>	<b>\$743,848,898</b>	<b>\$760,293,861</b>	<b>\$778,459,407</b>
<b>Agency Revenue</b>										
License Fees	3,440,000	3,440,000	3,440,000	3,440,000	3,440,000	3,440,000	3,440,000	3,440,000	3,440,000	3,440,000
Wholesale License fees	0	0	0	0	0	0	0	0	0	0
Application fees	1,331,424	1,410,043	1,493,305	1,581,483	1,674,868	1,773,787	1,878,506	1,989,430	2,106,903	2,231,314
Transfer fees	808,024	815,653	823,758	831,740	839,799	847,936	856,152	864,447	872,823	881,280
Permit fees	4,850,036	5,024,789	5,203,840	5,393,413	5,587,745	5,789,080	5,997,868	6,213,772	6,437,803	6,669,821
Entertainment fees	650,813	648,240	641,899	637,191	632,713	626,266	623,853	619,470	615,117	610,795
Admin fees	1,716,772	1,888,794	1,699,339	1,630,397	1,601,960	1,574,019	1,548,566	1,519,591	1,493,087	1,467,045
Bond forfeiture	48,561	38,121	29,914	23,473	18,420	14,544	11,342	8,900	6,884	5,480
Franchise Fees	0	0	0	0	0	0	0	0	0	0
Franchise Royalty Fees	0	0	0	0	0	0	0	0	0	0
Interest Income	4,360,178	4,920,239	5,552,240	6,265,420	7,070,208	7,978,370	9,003,184	10,159,835	11,464,832	12,937,253
Enforcement fines	1,408,420	1,429,981	1,392,509	1,356,039	1,320,523	1,285,937	1,252,257	1,219,460	1,187,521	1,156,419
Miscellaneous revenue	1,230,439	1,328,968	1,428,908	1,539,843	1,659,390	1,789,219	1,927,049	2,073,657	2,237,861	2,411,621
<b>SUBTOTAL</b>	<b>\$19,908,868</b>	<b>\$20,740,008</b>	<b>\$21,687,612</b>	<b>\$22,698,998</b>	<b>\$23,845,826</b>	<b>\$25,120,049</b>	<b>\$26,536,877</b>	<b>\$28,111,362</b>	<b>\$29,862,810</b>	<b>\$31,610,826</b>
<b>TOTAL REVENUE</b>	<b>\$676,145,227</b>	<b>\$686,901,887</b>	<b>\$698,481,390</b>	<b>\$708,921,874</b>	<b>\$724,368,727</b>	<b>\$738,998,514</b>	<b>\$754,621,426</b>	<b>\$771,960,260</b>	<b>\$790,156,671</b>	<b>\$810,269,233</b>
<b>Operating Expenses</b>										
Cost of goods sold	451,829,160	459,915,712	468,526,708	477,730,573	487,395,413	498,158,934	509,519,533	521,757,555	534,968,738	549,255,871
Salaries and Benefits	6,090,097	6,234,860	6,382,263	6,532,355	6,685,185	6,840,806	6,999,268	7,160,825	7,324,931	7,492,241
Wage Employees	54,839,013	56,148,576	57,700,242	59,295,198	60,934,852	62,618,661	64,352,110	66,132,721	67,963,053	69,844,505
Management	4,060,062	4,169,501	4,290,886	4,414,303	4,531,930	4,652,556	4,776,569	4,903,961	5,034,824	5,169,255
Retail Agency Payments	0	0	0	0	0	0	0	0	0	0
Store Expenses	35,743,526	36,484,058	37,282,223	38,109,076	38,975,738	39,883,401	40,833,336	41,826,891	42,865,501	43,950,895
<b>SUBTOTAL</b>	<b>\$554,361,856</b>	<b>\$564,981,707</b>	<b>\$576,181,325</b>	<b>\$586,081,503</b>	<b>\$596,712,816</b>	<b>\$607,153,559</b>	<b>\$618,480,816</b>	<b>\$629,781,752</b>	<b>\$640,155,045</b>	<b>\$651,712,545</b>
<b>Agency Expenses</b>										
Stores and Purchasing Admin	11,774,473	12,387,914	13,040,282	13,734,096	14,472,040	15,256,973	16,091,940	16,980,167	17,925,172	18,930,576
Executive Expenses	1,114,855	1,153,581	1,193,916	1,235,715	1,279,033	1,323,929	1,370,482	1,418,895	1,468,894	1,520,526
Alcohol Education Expenses	806,000	891,980	918,739	948,302	974,891	1,003,931	1,034,049	1,065,071	1,097,023	1,129,834
Administration Expenses	28,989,002	27,315,159	27,689,902	28,054,170	28,409,019	28,915,824	29,395,286	29,909,446	30,459,889	31,047,757
Warehouse Contract	22,778,859	23,201,089	23,631,179	24,073,337	24,521,893	24,978,399	25,443,612	25,917,489	26,400,191	26,891,884
Police (Enforcement)	19,750,806	20,346,043	20,959,430	21,591,310	22,242,240	22,912,784	23,603,564	24,315,159	25,046,206	25,803,354
Other Agencies	2,100,000	1,750,000	1,350,000	1,000,000	1,030,000	1,060,000	1,092,727	1,125,509	1,159,274	1,194,052
Auditor General	6,333,068	6,333,068	6,333,068	6,333,068	6,333,068	6,333,068	6,333,068	6,333,068	6,333,068	6,333,068
Comptroller Operations	95,659	99,648	103,603	108,132	112,642	117,339	122,330	127,040	132,640	138,172
Treasury	263,953	266,814	269,707	272,631	275,586	278,574	281,593	284,648	287,732	290,851
General Services	507,473	524,466	542,027	560,177	578,934	598,320	618,354	639,059	660,458	682,573
Civil Service	219,022	219,843	220,266	220,890	221,517	222,145	222,774	223,408	224,039	224,675
Payroll Services	360,214	378,856	393,849	411,826	430,823	450,279	470,832	492,323	514,795	538,293
Office of Budget/Admin	20,764	18,839	17,068	15,483	14,009	12,892	11,496	10,417	9,438	8,551
Misc. Agencies	491,000	522,695	556,436	592,355	630,593	671,299	714,633	760,764	809,873	862,152
<b>SUBTOTAL</b>	<b>\$93,662,778</b>	<b>\$95,407,571</b>	<b>\$97,201,670</b>	<b>\$99,149,470</b>	<b>\$101,385,887</b>	<b>\$104,136,263</b>	<b>\$106,806,824</b>	<b>\$109,602,598</b>	<b>\$112,530,291</b>	<b>\$115,596,418</b>
<b>Privatization Transition Costs and Revenues</b>										
Proceeds from Warehouse and Inventory	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Sick and Annual Leave Payout	\$3,313,978	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Transition Store Expenses	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unemployment Payment Costs	\$3,523,267	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>SUBTOTAL</b>	<b>\$6,837,245</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>TOTAL EXPENSES</b>	<b>\$661,199,101</b>	<b>\$660,389,278</b>	<b>\$673,382,995</b>	<b>\$687,230,973</b>	<b>\$702,298,505</b>	<b>\$718,289,822</b>	<b>\$735,287,441</b>	<b>\$753,384,370</b>	<b>\$772,685,336</b>	<b>\$793,306,962</b>
<b>Drug and Alcohol Program</b>	\$1,309,144	\$1,348,419	\$1,388,871	\$1,430,537	\$1,473,454	\$1,517,857	\$1,563,187	\$1,610,083	\$1,658,385	\$1,708,137
<b>TOTAL PROFIT</b>	<b>\$19,954,204</b>	<b>\$25,164,190</b>	<b>\$23,679,424</b>	<b>\$22,260,183</b>	<b>\$20,596,568</b>	<b>\$19,091,055</b>	<b>\$17,770,499</b>	<b>\$16,685,857</b>	<b>\$15,812,750</b>	<b>\$15,252,117</b>

## Appendix II

Financial projections subject to the provisions contained in the inside cover page of this report.

## State Transfers

Wine Only, License System -  
Low Control

Transfers to the Commonwealth	Forecast 1997	Forecast 1998	Forecast 1999	Forecast 2000	Forecast 2001	Forecast 2002	Forecast 2003	Forecast 2004	Forecast 2005	Forecast 2006
<b>Taxes</b>										
Liquor Tax	116,819,588	118,565,190	120,437,068	122,451,101	124,620,629	126,960,735	129,488,498	132,223,277	135,187,047	138,404,774
Gallage Tax	0	0	0	0	0	0	0	0	0	0
Sales Tax	49,691,369	50,535,144	51,438,699	52,409,664	53,454,449	54,580,301	55,795,423	57,109,113	58,531,923	60,075,841
Corporate Income Tax	0	0	0	0	0	0	0	0	0	0
Tax Enforcement	-1,890,288	-1,894,279	-1,898,555	-1,903,150	-1,908,095	-1,913,423	-1,919,173	-1,925,390	-1,932,124	-1,939,431
Police (Enforcement)	19,750,606	20,348,043	20,959,430	21,591,310	22,242,240	22,912,794	23,603,564	24,315,159	25,048,206	25,803,354
Drug and Alcohol Program	1,309,144	1,348,419	1,388,871	1,430,537	1,473,454	1,517,657	1,563,187	1,610,083	1,658,385	1,708,137
Profit Transfer to General Fund	19,954,204	25,164,190	23,679,424	22,260,163	20,596,568	19,091,055	17,770,499	16,665,857	15,812,750	15,252,117
IPO Proceeds	0									
Shifted Benefits Cost										
Annuitants Hospitalization	-1,314,507	-1,346,577	-1,379,444	-1,413,127	-1,447,647	-1,483,024	-1,519,281	-1,556,440	-1,594,523	-1,633,555
Civil Service	-197,351	-203,959	-210,788	-217,847	-225,141	-232,680	-240,471	-248,523	-256,845	-265,445
Payroll	-85,175	-85,417	-85,659	-85,902	-86,145	-86,390	-86,635	-86,880	-87,126	-87,373
Regulatory Costs	0	0	0	0	0	0	0	0	0	0
<b>TOTAL: Commonwealth Transfers</b>	<b>204,037,592</b>	<b>212,428,752</b>	<b>214,329,045</b>	<b>216,522,751</b>	<b>218,720,313</b>	<b>221,347,026</b>	<b>224,455,609</b>	<b>228,106,255</b>	<b>232,367,693</b>	<b>237,318,419</b>
<b>Transfers to Local Government</b>										
Local Sales Tax	2,567,387	2,610,982	2,657,666	2,707,833	2,761,813	2,819,982	2,882,764	2,950,637	3,024,149	3,103,918
License Fees to Municipalities	4,725,276	4,682,685	4,640,479	4,598,652	4,557,203	4,516,128	4,475,422	4,435,084	4,395,109	4,355,494
<b>TOTAL: Local Government Transfers</b>	<b>7,292,663</b>	<b>7,293,668</b>	<b>7,298,145</b>	<b>7,306,485</b>	<b>7,319,016</b>	<b>7,336,110</b>	<b>7,358,186</b>	<b>7,385,721</b>	<b>7,419,258</b>	<b>7,459,413</b>

## Wine Only, License System - High Control

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### Descriptive Statistics:

Liquor Excise Tax: 18%

Wholesale Markup: 27% w, 30% + OCC sp

Expected Retail Markup: 28% w, 0% sp

Expected No. Retail Outlets: 1,200 w, 665 sp

### Selected Economic Impacts

Average Impact on Spirits Prices (1st Year): -

Average Impact on Wine Prices (1st Year): 1.89%

"Up Front" Revenues: \$0

### Revenue to Commonwealth Government - Scenario vs. Baseline (\$millions)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	10-yr Sum
Scenario	\$208.19	\$216.58	\$218.47	\$220.66	\$222.84	\$225.44	\$228.53	\$232.14	\$236.36	\$241.26	\$2,250.47
Baseline:	\$240.02	\$241.44	\$243.16	\$245.17	\$247.18	\$249.61	\$252.51	\$255.94	\$259.98	\$264.69	\$2,499.71
Differenc	(\$31.83)	(\$24.86)	(\$24.69)	(\$24.52)	(\$24.34)	(\$24.16)	(\$23.99)	(\$23.80)	(\$23.62)	(\$23.43)	(\$249.23)



# Privatization Analysis of the Pennsylvania Wine and Spirits Industry

## PLCB Summary

### Wine Only, License System - High Control

	Forecast 1997	Forecast 1998	Forecast 1999	Forecast 2000	Forecast 2001	Forecast 2002	Forecast 2003	Forecast 2004	Forecast 2005	Forecast 2006
<b>Operating Revenue</b>										
Liquor										
License Sales	121,572,016	121,790,462	122,024,122	122,272,892	122,530,972	122,815,361	123,108,868	123,417,095	123,739,881	124,077,378
Retail Sales	297,072,939	298,452,100	295,889,785	295,325,235	294,818,083	294,347,848	293,914,088	293,516,384	293,154,342	292,827,578
LESS: Pass-through Discounts	9,909,896	9,900,374	9,892,119	9,885,118	9,878,357	9,874,823	9,871,503	9,868,365	9,865,458	9,868,710
<b>Wine</b>										
License Sales	37,916,452	39,246,328	40,628,412	42,063,128	43,558,000	45,116,685	46,738,883	48,426,539	50,188,949	52,022,370
Retail Sales	184,034,140	190,237,499	196,719,560	203,451,153	210,464,187	217,771,060	225,384,884	233,319,311	241,588,609	250,207,970
LESS: Pass-through Discounts	5,253,874	5,432,869	5,618,303	5,811,858	6,013,075	6,222,911	6,441,541	6,680,358	6,906,788	7,154,205
Bottle Pick	7,240,626	7,486,380	7,898,958	7,938,780	8,169,073	8,441,068	8,704,007	8,975,137	9,254,712	9,542,098
Special Order	16,302,319	16,865,498	17,373,215	17,838,780	18,263,051	18,648,073	18,988,477	19,284,350	19,535,898	19,743,715
<b>SUBTOTAL</b>	<b>\$648,974,925</b>	<b>\$658,545,284</b>	<b>\$668,901,809</b>	<b>\$679,631,826</b>	<b>\$691,707,612</b>	<b>\$704,511,287</b>	<b>\$718,335,159</b>	<b>\$733,284,074</b>	<b>\$749,477,003</b>	<b>\$767,049,093</b>
<b>Agency Revenue</b>										
License Fees	600,000	600,000	600,000	600,000	600,000	600,000	600,000	600,000	600,000	600,000
Retail License fees	0	0	0	0	0	0	0	0	0	0
Wholesale License fees	1,331,424	1,410,043	1,493,305	1,581,483	1,674,866	1,773,787	1,878,506	1,989,430	2,106,903	2,231,314
Application fees	808,024	815,853	823,758	831,740	839,799	847,936	856,152	864,447	872,823	881,280
Transfer fees	4,850,036	5,024,789	5,205,840	5,393,413	5,587,745	5,788,080	5,997,688	6,213,772	6,437,893	6,669,021
Permit fees	650,613	646,240	641,899	637,191	632,713	628,268	623,853	619,470	615,117	610,795
Entertainment fees	1,716,772	1,888,794	1,859,339	1,630,397	1,601,060	1,574,019	1,546,568	1,519,591	1,493,087	1,467,045
Admin fees	48,581	36,121	29,914	23,473	16,420	14,454	11,342	6,900	6,984	5,490
Bond forfeiture	0	0	0	0	0	0	0	0	0	0
Franchise Fees	0	0	0	0	0	0	0	0	0	0
Franchise Royalty Fees	0	0	0	0	0	0	0	0	0	0
Interest Income	4,340,176	4,920,239	5,552,240	6,265,420	7,070,208	7,978,370	9,003,184	10,159,635	11,484,832	12,937,253
Enforcement fines	1,140,850	1,110,970	1,081,873	1,053,538	1,025,945	999,074	972,908	947,428	922,813	898,449
Miscellaneous revenue	1,230,439	1,325,068	1,428,908	1,539,843	1,659,390	1,786,219	1,927,049	2,078,857	2,237,881	2,411,021
<b>SUBTOTAL</b>	<b>\$16,739,117</b>	<b>\$17,551,016</b>	<b>\$18,516,875</b>	<b>\$19,556,497</b>	<b>\$20,711,047</b>	<b>\$21,993,188</b>	<b>\$23,417,227</b>	<b>\$24,989,329</b>	<b>\$26,757,702</b>	<b>\$28,712,856</b>
<b>TOTAL REVENUE</b>	<b>\$665,714,042</b>	<b>\$676,126,301</b>	<b>\$687,418,684</b>	<b>\$699,388,323</b>	<b>\$712,418,660</b>	<b>\$726,504,475</b>	<b>\$741,752,386</b>	<b>\$758,283,403</b>	<b>\$776,234,705</b>	<b>\$795,761,950</b>
<b>Operating Expenses</b>										
Cost of goods sold	446,376,937	454,197,416	462,525,147	471,427,970	480,962,404	481,192,382	502,190,211	514,037,997	526,828,842	540,888,563
Salaries and Benefits	8,090,097	8,234,890	8,382,263	8,532,355	8,685,185	8,840,806	8,999,286	9,160,825	9,324,931	9,492,241
Wage Employees	54,039,013	56,146,576	57,700,242	59,205,106	60,834,652	62,618,881	64,352,110	66,132,721	67,963,053	69,844,505
Salaried Employees	4,080,082	4,188,501	4,299,888	4,414,303	4,531,630	4,652,556	4,778,589	4,903,961	5,034,824	5,169,255
Management	0	0	0	0	0	0	0	0	0	0
Retail Agency Payments	35,743,526	36,494,056	37,262,223	38,109,076	38,975,738	39,863,401	40,833,336	41,828,891	42,865,501	43,950,895
Store Expenses	\$548,929,634	\$559,293,413	\$570,109,784	\$581,778,900	\$594,089,809	\$607,188,986	\$621,151,495	\$636,062,184	\$652,017,151	\$668,123,258
<b>SUBTOTAL</b>	<b>\$1,174,473</b>	<b>12,387,914</b>	<b>13,040,282</b>	<b>13,734,096</b>	<b>14,472,040</b>	<b>15,256,973</b>	<b>16,091,940</b>	<b>16,980,167</b>	<b>17,925,172</b>	<b>18,930,578</b>
<b>Agency Expenses</b>										
Stores and Purchasing Admin	1,114,655	1,153,591	1,193,916	1,235,715	1,279,033	1,323,929	1,370,462	1,418,895	1,468,894	1,520,526
Executive Expenses	866,000	891,980	918,739	946,302	974,691	1,003,931	1,034,049	1,065,071	1,097,023	1,129,934
Alcohol Education Expenses	24,349,535	24,659,843	24,996,267	25,359,725	25,751,247	26,171,982	26,623,202	27,106,311	27,622,859	28,174,546
Administration Expenses	16,703,030	17,014,117	17,330,908	17,653,781	17,982,575	18,317,493	18,658,849	19,006,158	19,360,140	19,720,715
Warehouse Contract	15,344,702	15,807,310	16,283,865	16,774,767	17,280,510	17,801,479	18,336,153	18,891,006	19,460,530	20,047,221
Police (Enforcement)	2,100,000	1,750,000	1,350,000	1,000,000	1,030,000	1,080,900	1,092,727	1,125,509	1,159,274	1,194,052
Other Agencies	6,333,066	6,333,066	6,333,066	6,333,066	6,333,066	6,333,066	6,333,066	6,333,066	6,333,066	6,333,066
Comptroller Operations	95,659	99,846	103,803	108,132	112,842	117,339	122,233	127,330	132,840	138,172
Treasury	263,953	268,814	269,707	272,831	275,588	278,574	281,593	284,848	287,732	290,651
General Services	507,473	524,466	542,027	560,177	578,934	598,320	618,354	639,059	660,458	682,573
Civil Service	218,022	219,643	220,268	220,890	221,517	222,145	222,774	223,408	224,039	224,675
Payroll Services	360,214	376,656	393,840	411,826	430,823	450,279	470,632	492,323	514,795	538,293
Office of Budget/Admin	20,784	16,838	17,068	15,463	14,009	12,692	11,499	10,417	9,438	8,551
Misc. Agencies	491,000	522,895	558,438	592,355	630,593	671,299	714,633	760,764	809,873	862,152
<b>BMS Services</b>	<b>\$80,543,575</b>	<b>\$82,026,572</b>	<b>\$83,550,289</b>	<b>\$85,218,945</b>	<b>\$87,367,066</b>	<b>\$89,620,399</b>	<b>\$91,984,196</b>	<b>\$94,463,952</b>	<b>\$97,065,733</b>	<b>\$99,795,904</b>
<b>SUBTOTAL</b>	<b>\$80,543,575</b>	<b>\$82,026,572</b>	<b>\$83,550,289</b>	<b>\$85,218,945</b>	<b>\$87,367,066</b>	<b>\$89,620,399</b>	<b>\$91,984,196</b>	<b>\$94,463,952</b>	<b>\$97,065,733</b>	<b>\$99,795,904</b>
<b>Privatization Transition Costs and Revenues</b>										
Proceeds from Warehouse and Inventory	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Sick and Annual Leave Payout	\$3,313,976	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Transition Store Expenses	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unemployment Payment Costs	\$3,523,267	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>SUBTOTAL</b>	<b>\$6,837,243</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>TOTAL EXPENSES</b>	<b>\$658,310,455</b>	<b>\$641,299,985</b>	<b>\$653,740,052</b>	<b>\$668,997,845</b>	<b>\$681,456,875</b>	<b>\$694,800,386</b>	<b>\$713,135,681</b>	<b>\$730,528,146</b>	<b>\$749,082,884</b>	<b>\$768,921,161</b>
<b>Drug and Alcohol Program</b>	<b>\$1,308,144</b>	<b>\$1,346,418</b>	<b>\$1,386,071</b>	<b>\$1,430,537</b>	<b>\$1,478,454</b>	<b>\$1,527,057</b>	<b>\$1,576,385</b>	<b>\$1,626,438</b>	<b>\$1,677,215</b>	<b>\$1,728,213</b>
<b>TOTAL PROFIT</b>	<b>\$26,094,443</b>	<b>\$33,487,697</b>	<b>\$32,169,560</b>	<b>\$30,959,741</b>	<b>\$29,488,331</b>	<b>\$28,177,430</b>	<b>\$27,053,539</b>	<b>\$26,147,175</b>	<b>\$25,493,438</b>	<b>\$25,132,853</b>



**State Transfers**  
Wine Only, License System -  
High Control

Transfers to the Commonwealth	Forecast 1997	Forecast 1998	Forecast 1999	Forecast 2000	Forecast 2001	Forecast 2002	Forecast 2003	Forecast 2004	Forecast 2005	Forecast 2006
<b>Taxes</b>										
Liquor Tax	115,512,137	117,194,203	118,998,477	120,940,712	123,033,877	125,292,639	127,733,607	130,375,609	133,240,012	136,351,098
Gallage Tax	0	0	0	0	0	0	0	0	0	0
Sales Tax	50,053,747	50,908,398	51,823,540	52,807,115	53,865,664	55,006,583	56,238,243	57,570,135	59,013,025	60,579,146
Corporate Income Tax	0	0	0	0	0	0	0	0	0	0
Tax Enforcement	-525,563	-529,608	-533,939	-538,594	-543,603	-549,003	-554,831	-561,135	-567,963	-575,375
Police (Enforcement)	15,344,702	15,807,310	16,283,865	16,774,787	17,280,510	17,801,479	18,338,153	18,891,008	19,460,530	20,047,221
Drug and Alcohol Program	1,309,144	1,348,419	1,388,871	1,430,537	1,473,454	1,517,657	1,563,187	1,610,083	1,658,385	1,708,137
Profit Transfer to General Fund	28,094,443	33,487,897	32,189,560	30,959,741	29,488,331	28,177,430	27,053,539	26,147,175	25,493,436	25,132,653
IPO Proceeds	0	0	0	0	0	0	0	0	0	0
Shifted Benefits Cost										
Annuity Hospitalization	-1,314,507	-1,348,577	-1,379,444	-1,413,127	-1,447,647	-1,483,024	-1,519,281	-1,556,440	-1,594,523	-1,633,555
Civil Service	-197,351	-203,959	-210,788	-217,847	-225,141	-232,680	-240,471	-248,523	-256,845	-265,445
Payroll	-85,175	-85,417	-85,659	-85,902	-86,145	-86,390	-86,635	-86,880	-87,126	-87,373
Regulatory Costs	0	0	0	0	0	0	0	0	0	0
<b>TOTAL: Commonwealth Transfers</b>	<b>208,191,577</b>	<b>216,580,666</b>	<b>218,474,483</b>	<b>220,657,424</b>	<b>222,839,299</b>	<b>225,444,692</b>	<b>228,525,511</b>	<b>232,141,030</b>	<b>236,358,930</b>	<b>241,256,506</b>

Transfers to Local Government	Forecast 1997	Forecast 1998	Forecast 1999	Forecast 2000	Forecast 2001	Forecast 2002	Forecast 2003	Forecast 2004	Forecast 2005	Forecast 2006
<b>Local Sales Tax</b>	<b>2,588,110</b>	<b>2,630,267</b>	<b>2,677,550</b>	<b>2,728,368</b>	<b>2,783,059</b>	<b>2,842,007</b>	<b>2,905,643</b>	<b>2,974,457</b>	<b>3,049,006</b>	<b>3,129,923</b>
<b>License Fees to Municipalities</b>	<b>4,725,276</b>	<b>4,682,685</b>	<b>4,640,479</b>	<b>4,598,652</b>	<b>4,557,203</b>	<b>4,516,128</b>	<b>4,475,422</b>	<b>4,435,084</b>	<b>4,395,109</b>	<b>4,355,494</b>
<b>TOTAL: Local Government Transfers</b>	<b>7,311,386</b>	<b>7,312,952</b>	<b>7,318,028</b>	<b>7,327,020</b>	<b>7,340,263</b>	<b>7,358,134</b>	<b>7,381,065</b>	<b>7,409,541</b>	<b>7,444,115</b>	<b>7,485,417</b>

## Wine Only, Franchise System - Low Markup

### Descriptive Statistics:

Liquor Excise Tax:	18%
Wholesale Markup:	8% w, 30% + OCC sp
Expected Retail Markup:	25% w, 0% sp
Expected No. Retail Outlets:	665 w, 665 sp

### Selected Economic Impacts

Average Impact on Spirits Prices (1st Year):	-
Average Impact on Wine Prices (1st Year):	-15.39%
"Up Front" Revenues:	\$0

### Revenue to Commonwealth Government - Scenario vs. Baseline (\$millions)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	10-yr Sum
Scenario	\$254.42	\$179.19	\$179.53	\$180.05	\$180.44	\$181.13	\$182.14	\$183.52	\$185.31	\$187.58	<b>\$1,893.29</b>
Baseline:	\$240.02	\$241.44	\$243.16	\$245.17	\$247.18	\$249.61	\$252.51	\$255.94	\$259.98	\$264.69	<b>\$2,499.71</b>
Differenc	\$14.39	(\$62.25)	(\$63.63)	(\$65.13)	(\$66.74)	(\$68.48)	(\$70.37)	(\$72.43)	(\$74.67)	(\$77.11)	<b>(\$606.41)</b>

# PLCB Summary

Wine Only, Franchise  
System - Low Markup

	Forecast 1997	Forecast 1998	Forecast 1999	Forecast 2000	Forecast 2001	Forecast 2002	Forecast 2003	Forecast 2004	Forecast 2005	Forecast 2006
<b>Operating Revenue</b>										
Liquor										
License Sales	121,572,016	121,760,462	122,024,122	122,272,892	122,536,872	122,815,361	123,100,866	123,417,095	123,739,961	124,077,376
Retail Sales	297,072,939	296,452,160	295,869,765	295,325,235	294,816,083	294,347,846	293,914,066	293,516,364	293,154,342	292,827,576
LESS: Pass-through Discounts	9,909,896	9,900,374	9,892,119	9,885,118	9,879,357	9,874,923	9,871,503	9,869,385	9,868,456	9,866,710
<b>Wine</b>										
License Sales	36,023,399	37,326,164	38,680,225	40,090,765	41,560,325	43,091,539	44,887,182	46,350,076	48,083,293	49,888,982
Retail Sales	174,845,877	180,949,087	187,295,612	193,911,218	200,807,161	207,996,092	216,491,046	223,305,802	231,454,302	239,951,892
LESS: Pass-through Discounts	4,991,564	5,166,973	5,348,181	5,539,148	5,737,169	5,943,587	6,156,774	6,393,120	6,617,037	6,860,853
Bottle Pick	7,240,829	7,468,380	7,696,956	7,936,780	8,188,073	8,441,088	8,704,007	8,975,137	9,254,712	9,542,996
Special Order	14,803,914	16,739,723	19,190,053	22,002,404	25,230,768	29,397,350	33,193,617	36,081,917	43,897,033	50,146,105
<b>SUBTOTAL</b>	<b>\$636,457,515</b>	<b>\$645,956,726</b>	<b>\$655,617,634</b>	<b>\$666,117,028</b>	<b>\$677,522,574</b>	<b>\$689,910,647</b>	<b>\$703,066,610</b>	<b>\$717,393,766</b>	<b>\$732,898,146</b>	<b>\$749,706,249</b>
<b>Agency Revenue</b>										
License Fees										
Retail License fees	332,500	332,500	332,500	332,500	332,500	332,500	332,500	332,500	332,500	332,500
Wholesale License fees	0	0	0	0	0	0	0	0	0	0
Application fees	1,331,424	1,410,043	1,493,305	1,581,463	1,674,868	1,773,767	1,878,508	1,989,430	2,106,903	2,231,314
Transfer fees	608,024	615,653	623,756	631,740	639,799	647,938	656,152	664,447	672,823	681,280
Permit fees	4,850,038	5,024,789	5,205,840	5,393,413	5,587,745	5,789,080	5,997,666	6,213,772	6,437,863	6,669,821
Entertainment fees	650,613	648,240	641,698	637,191	632,713	628,268	623,853	619,470	615,117	610,795
Admin fees	1,716,772	1,986,784	1,959,339	1,830,397	1,601,960	1,574,019	1,548,566	1,519,591	1,493,087	1,467,045
Bond forfeiture	46,561	38,121	29,914	23,473	16,420	14,454	11,342	8,900	6,984	5,480
Franchise Fees	62,159,310	0	0	0	0	0	0	0	0	0
Franchise Royalty Fees	0	0	0	0	0	0	0	0	0	0
Interest Income	4,360,176	4,920,239	5,552,240	6,265,420	7,070,206	7,976,370	9,003,164	10,159,635	11,464,832	12,937,253
Enforcement fines	1,166,032	1,154,969	1,124,719	1,095,262	1,066,578	1,038,642	1,011,439	984,946	959,152	934,031
Miscellaneous revenue	1,230,439	1,325,968	1,426,908	1,539,643	1,659,390	1,786,219	1,927,049	2,076,657	2,237,891	2,411,821
<b>SUBTOTAL</b>	<b>\$98,878,109</b>	<b>\$17,357,515</b>	<b>\$18,292,222</b>	<b>\$19,330,722</b>	<b>\$20,464,179</b>	<b>\$21,785,253</b>	<b>\$23,166,256</b>	<b>\$24,769,351</b>	<b>\$26,526,741</b>	<b>\$28,460,840</b>
<b>TOTAL REVENUE</b>	<b>\$735,335,624</b>	<b>\$663,314,243</b>	<b>\$673,909,857</b>	<b>\$685,447,750</b>	<b>\$698,006,753</b>	<b>\$711,695,900</b>	<b>\$726,232,866</b>	<b>\$742,163,137</b>	<b>\$759,424,889</b>	<b>\$778,167,089</b>
<b>Operating Expenses</b>										
Cost of goods sold	488,098,527	474,079,331	484,231,581	494,223,212	504,916,489	516,381,612	526,698,887	541,956,078	558,261,961	571,727,120
Salaries and Benefits	6,090,097	6,234,660	6,392,263	6,532,355	6,685,185	6,840,606	6,999,286	7,160,825	7,324,931	7,492,241
Wage Employees	54,839,013	56,146,078	57,700,242	59,295,198	60,934,652	62,619,861	64,352,110	66,132,721	67,963,053	69,844,505
Management	4,060,062	4,186,501	4,298,868	4,414,303	4,531,830	4,652,556	4,778,569	4,903,961	5,034,824	5,169,255
Retail Agency Payments	0	0	0	0	0	0	0	0	0	0
Store Expenses	35,743,528	36,494,058	37,282,223	38,109,076	38,975,738	39,883,401	40,833,336	41,826,891	42,865,501	43,950,695
<b>SUBTOTAL</b>	<b>\$568,649,225</b>	<b>\$579,945,326</b>	<b>\$591,896,197</b>	<b>\$604,574,141</b>	<b>\$618,043,695</b>	<b>\$632,376,437</b>	<b>\$647,660,171</b>	<b>\$663,982,275</b>	<b>\$681,450,269</b>	<b>\$700,163,615</b>
<b>Agency Expenses</b>										
Stores and Purchasing Admin.	11,774,473	12,387,914	13,040,282	13,734,096	14,472,040	15,258,973	16,091,940	16,980,187	17,925,172	18,930,576
Executive Expenses	1,114,955	1,153,581	1,193,916	1,235,715	1,279,033	1,323,929	1,370,482	1,418,695	1,468,694	1,520,526
Alcohol Education Expenses	866,000	891,991	916,739	946,302	974,991	1,003,931	1,034,049	1,065,071	1,097,023	1,129,934
Administration Expenses	24,106,099	24,420,250	24,780,432	25,127,574	25,622,714	25,947,010	26,401,743	26,888,327	27,408,321	27,963,435
Warehouse Contract	16,703,030	17,014,117	17,330,996	17,653,761	17,982,575	18,317,493	18,658,649	19,006,156	19,360,140	19,720,715
Police (Enforcement)	15,952,413	16,433,342	16,926,771	17,439,135	17,964,866	18,506,466	19,064,417	19,639,167	20,231,244	20,841,170
Other Agencies	2,100,000	1,750,000	1,350,000	1,000,000	1,030,000	1,060,900	1,092,727	1,125,509	1,159,274	1,194,052
Auditor General	6,333,066	6,333,066	6,333,066	6,333,066	6,333,066	6,333,066	6,333,066	6,333,066	6,333,066	6,333,066
Comptroller Operations	95,659	99,648	103,803	108,132	112,642	117,339	122,233	127,330	132,640	138,172
Treasury	263,953	266,914	269,707	272,631	275,566	279,574	281,593	284,646	287,732	290,951
General Services	507,473	524,486	542,027	560,177	578,934	598,320	618,354	639,059	660,458	682,573
Civil Service	219,022	219,643	220,268	220,890	221,517	222,145	222,774	223,406	224,039	224,675
Payroll Services	360,214	376,656	393,849	411,826	430,823	450,279	470,832	492,323	514,795	538,293
Office of Budget/Admin	20,794	17,068	16,839	15,463	14,009	12,692	11,498	10,417	9,438	8,551
Misc. Agencies	491,000	522,695	556,436	592,355	630,593	671,299	714,633	760,764	809,873	862,152
<b>SUBTOTAL</b>	<b>\$40,907,849</b>	<b>\$42,413,010</b>	<b>\$43,659,360</b>	<b>\$45,651,142</b>	<b>\$47,822,909</b>	<b>\$50,100,436</b>	<b>\$52,468,970</b>	<b>\$54,994,126</b>	<b>\$57,621,909</b>	<b>\$60,378,742</b>
<b>Privatization Transition Costs and Revenues</b>										
Proceeds from Warehouse and Inventory	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Sick and Annual Leave Payout	\$3,313,976	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Transition Store Expenses	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unemployment Payment Costs	\$3,523,267	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>SUBTOTAL</b>	<b>\$6,837,245</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>TOTAL EXPENSES</b>	<b>\$658,394,319</b>	<b>\$662,358,336</b>	<b>\$675,655,557</b>	<b>\$690,225,284</b>	<b>\$705,866,604</b>	<b>\$722,478,873</b>	<b>\$740,149,141</b>	<b>\$758,976,401</b>	<b>\$779,072,178</b>	<b>\$800,562,357</b>
<b>Drug and Alcohol Program</b>	\$1,309,144	\$1,346,419	\$1,388,671	\$1,430,537	\$1,473,454	\$1,517,657	\$1,563,187	\$1,610,083	\$1,658,365	\$1,708,137
<b>TOTAL PROFIT</b>	<b>\$77,430,160</b>	<b>\$82,251,111</b>	<b>\$83,434,553</b>	<b>\$84,206,071</b>	<b>\$84,333,505</b>	<b>\$84,206,071</b>	<b>\$84,206,071</b>	<b>\$84,206,071</b>	<b>\$84,206,071</b>	<b>\$84,206,071</b>

## State Transfers

Wine Only, Franchise System  
Low Markup

<b>Transfers to the Commonwealth</b>		Forecast 1997	Forecast 1998	Forecast 1999	Forecast 2000	Forecast 2001	Forecast 2002	Forecast 2003	Forecast 2004	Forecast 2005	Forecast 2006
<b>Taxes</b>											
	Liquor Tax	113,259,003	114,874,263	116,607,365	118,472,085	120,480,570	122,646,560	124,985,610	127,515,357	130,255,818	133,229,746
	Gallonage Tax	0	0	0	0	0	0	0	0	0	0
	Sales Tax	48,451,066	49,252,188	50,110,323	51,032,255	52,023,966	53,092,221	54,244,678	55,490,016	56,838,087	58,300,083
	Corporate Income Tax	0	0	0	0	0	0	0	0	0	0
	Tax Enforcement	-389,274	-393,065	-397,126	-401,489	-406,182	-411,238	-416,692	-422,586	-428,965	-435,884
	Police (Enforcement)	15,952,413	16,433,342	16,928,771	17,439,135	17,964,886	18,506,488	19,064,417	19,639,167	20,231,244	20,841,170
	Drug and Alcohol Program	1,309,144	1,348,419	1,388,871	1,430,537	1,473,454	1,517,657	1,563,187	1,610,083	1,658,385	1,708,137
	Profit Transfer to General Fund	77,430,160	-692,511	-3,434,553	-6,208,071	-9,333,505	-12,420,430	-15,455,560	-18,423,346	-21,305,675	-24,081,505
	IPO Proceeds	0									
	Shifted Benefits Cost										
	Annuitants Hospitalization	-1,314,507	-1,346,577	-1,379,444	-1,413,127	-1,447,647	-1,483,024	-1,519,281	-1,556,440	-1,594,523	-1,633,555
	Civil Service	-197,351	-203,959	-210,788	-217,847	-225,141	-232,680	-240,471	-248,523	-256,845	-265,445
	Payroll	-85,175	-85,417	-85,659	-85,902	-86,145	-86,390	-86,635	-86,880	-87,128	-87,373
	Regulatory Costs	0	0	0	0	0	0	0	0	0	0
<b>TOTAL: Commonwealth Transfers</b>		254,415,480	179,186,682	179,527,760	180,047,577	180,444,256	181,129,164	182,139,253	183,516,847	185,310,399	187,575,373
<b>Transfers to Local Government</b>											
	Local Sales Tax	2,503,305	2,544,696	2,589,033	2,636,666	2,687,905	2,743,098	2,802,642	2,866,984	2,936,634	3,012,171
	License Fees to Municipalities	4,725,276	4,682,685	4,640,479	4,598,652	4,557,203	4,516,128	4,475,422	4,435,084	4,395,109	4,355,494
<b>TOTAL: Local Government Transfers</b>		7,228,581	7,227,382	7,229,512	7,235,319	7,245,108	7,259,226	7,278,064	7,302,068	7,331,743	7,367,665



## Wine Only, Franchise System - High Markup

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### Descriptive Statistics:

Liquor Excise Tax:	18%
Wholesale Markup:	27% w, 30% + OCC sp
Expected Retail Markup:	25% w, 0% sp
Expected No. Retail Outlets:	665 w, 665 sp

### Selected Economic Impacts

Average Impact on Spirits Prices (1st Year):	-
Average Impact on Wine Prices (1st Year):	-0.50%
"Up Front" Revenues:	\$0

### Revenue to Commonwealth Government - Scenario vs. Baseline (\$millions)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	10-yr Sum
Scenario	\$291.89	\$218.18	\$220.15	\$222.40	\$224.66	\$227.35	\$230.52	\$234.24	\$238.56	\$243.56	\$2,351.52
Baseline:	\$240.02	\$241.44	\$243.16	\$245.17	\$247.18	\$249.61	\$252.51	\$255.94	\$259.98	\$264.69	\$2,499.71
Differenc	\$51.87	(\$23.26)	(\$23.02)	(\$22.77)	(\$22.52)	(\$22.26)	(\$21.99)	(\$21.71)	(\$21.42)	(\$21.12)	(\$148.19)

# Privatization Analysis of the Pennsylvania Wine and Spirits Industry

## PLUB Summary:

Wine Only, Franchise System - High Markup

	Forecast 1997	Forecast 1998	Forecast 1999	Forecast 2000	Forecast 2001	Forecast 2002	Forecast 2003	Forecast 2004	Forecast 2005	Forecast 2006
<b>Operating Revenue</b>										
Liquor										
License Sales	121,572,016	121,760,462	122,024,122	122,272,892	122,536,872	122,815,361	123,108,666	123,417,095	123,739,961	124,077,378
Retail Sales	297,072,930	296,452,180	295,669,765	295,325,235	294,816,063	294,347,848	293,914,066	293,516,364	293,154,342	292,827,578
LESS: Pass-through Discounts	9,909,898	9,900,374	9,892,110	9,885,118	9,879,357	9,874,823	9,871,503	9,869,385	9,868,458	9,868,710
<b>Wine</b>										
License Sales	36,530,662	39,889,876	41,298,093	42,765,466	44,293,471	45,864,719	47,542,067	49,268,469	51,067,015	52,940,935
Retail Sales	187,019,289	193,371,489	199,971,948	206,848,367	214,012,911	221,478,336	229,256,009	237,365,933	245,816,780	254,825,923
LESS: Pass-through Discounts	5,339,009	5,521,566	5,711,191	5,908,701	6,114,465	6,326,849	6,552,236	6,785,028	7,027,845	7,280,526
Bottle Pick	7,240,829	7,466,390	7,696,956	7,936,780	8,186,073	8,441,098	8,704,007	8,975,137	9,254,712	9,542,996
Special Order	16,422,702	16,608,393	21,838,121	24,670,200	28,261,870	32,381,227	37,106,557	42,527,880	48,748,725	55,068,176
<b>SUBTOTAL</b>	<b>\$852,606,732</b>	<b>\$867,353,582</b>	<b>\$872,797,603</b>	<b>\$884,027,151</b>	<b>\$896,115,237</b>	<b>\$909,144,866</b>	<b>\$923,209,854</b>	<b>\$938,416,466</b>	<b>\$954,885,432</b>	<b>\$972,753,750</b>
<b>Agency Revenue</b>										
License Fees										
Retail License fees	332,500	332,500	332,500	332,500	332,500	332,500	332,500	332,500	332,500	332,500
Wholesale License fees	0	0	0	0	0	0	0	0	0	0
Application fees	1,331,424	1,410,043	1,493,305	1,581,483	1,674,868	1,773,787	1,878,506	1,989,430	2,106,903	2,231,314
Transfer fees	808,024	815,853	823,756	831,740	839,799	847,936	856,152	864,447	872,823	881,280
Permit fees	4,850,036	5,024,789	5,205,840	5,393,413	5,587,745	5,789,080	5,997,068	6,213,772	6,437,663	6,669,821
Entertainment fees	850,813	846,240	841,869	837,191	832,713	828,268	823,853	819,470	815,117	810,795
Admin fees	1,716,772	1,686,794	1,659,339	1,630,397	1,601,960	1,574,019	1,546,966	1,519,591	1,493,087	1,467,045
Bond forfeiture	48,581	38,121	28,914	23,473	18,420	14,454	11,342	8,900	6,964	5,460
Franchise Fees	82,159,310	0	0	0	0	0	0	0	0	0
Franchise Royalty Fees	0	0	0	0	0	0	0	0	0	0
Interest Income	4,380,176	4,020,239	3,552,240	3,085,420	2,707,208	2,378,370	2,093,184	1,850,835	1,648,832	1,473,253
Enforcement fines	1,169,032	1,154,969	1,124,719	1,095,262	1,066,576	1,036,842	1,011,439	984,948	959,152	934,031
Miscellaneous revenue	1,230,439	1,325,966	1,426,908	1,539,643	1,659,390	1,788,219	1,927,049	2,076,857	2,237,881	2,411,821
<b>SUBTOTAL</b>	<b>\$98,678,109</b>	<b>\$117,357,515</b>	<b>\$128,282,222</b>	<b>\$139,330,722</b>	<b>\$150,484,179</b>	<b>\$161,705,253</b>	<b>\$173,186,258</b>	<b>\$184,769,351</b>	<b>\$196,526,741</b>	<b>\$208,460,940</b>
<b>TOTAL REVENUE</b>	<b>\$751,284,841</b>	<b>\$984,711,097</b>	<b>\$1,001,079,825</b>	<b>\$1,023,357,872</b>	<b>\$1,046,600,416</b>	<b>\$1,070,850,119</b>	<b>\$1,096,396,112</b>	<b>\$1,123,185,817</b>	<b>\$1,151,412,173</b>	<b>\$1,181,214,690</b>
<b>Operating Expenses</b>										
Cost of goods sold	449,103,046	457,056,565	465,525,927	474,576,271	484,273,908	494,074,848	503,854,872	513,697,778	523,597,769	533,549,217
Salaries and Benefits	8,090,097	8,234,880	8,382,263	8,532,355	8,685,185	8,840,806	8,999,268	9,160,825	9,324,931	9,492,241
Wage Employees	54,839,013	56,146,576	57,700,242	59,285,190	60,934,852	62,619,861	64,352,110	66,132,721	67,963,053	69,844,505
Salaries Employees	4,080,062	4,188,501	4,299,886	4,414,303	4,531,830	4,652,556	4,778,569	4,903,961	5,034,824	5,169,255
Management	0	0	0	0	0	0	0	0	0	0
Retail Agency Payments	0	0	0	0	0	0	0	0	0	0
Store Expenses	35,743,526	36,494,058	37,282,223	38,109,076	38,975,738	39,883,401	40,833,336	41,828,891	42,865,501	43,950,895
<b>SUBTOTAL</b>	<b>\$551,655,748</b>	<b>\$562,122,580</b>	<b>\$573,190,544</b>	<b>\$584,930,201</b>	<b>\$597,401,314</b>	<b>\$610,871,272</b>	<b>\$624,816,155</b>	<b>\$639,921,973</b>	<b>\$656,088,088</b>	<b>\$673,418,911</b>
<b>Agency Expenses</b>										
Stores and Purchasing Admin	11,774,473	12,387,914	13,040,262	13,734,096	14,472,040	15,256,973	16,091,940	16,980,167	17,925,172	18,930,578
Executive Expenses	1,114,655	1,153,581	1,193,916	1,235,715	1,279,033	1,323,929	1,370,482	1,418,895	1,468,894	1,520,526
Alcohol Education Expenses	866,000	891,980	918,739	946,302	974,891	1,003,931	1,034,049	1,065,071	1,097,023	1,129,934
Administration Expenses	24,106,099	24,420,250	24,760,432	25,127,574	25,522,714	25,947,010	26,401,743	26,888,327	27,408,321	27,963,435
Warehouse Contract	18,703,030	17,014,117	17,330,908	17,853,781	17,982,575	18,317,493	18,858,649	19,006,158	19,360,140	19,720,715
Police (Enforcement)	15,952,413	16,433,342	16,928,771	17,439,135	17,964,866	18,506,468	19,064,417	19,639,167	20,231,244	20,841,170
Other Agencies	2,100,000	1,750,000	1,350,000	1,000,000	1,030,000	1,060,900	1,092,727	1,125,599	1,159,274	1,194,052
Auditor General	6,333,066	6,333,066	6,333,066	6,333,066	6,333,066	6,333,066	6,333,066	6,333,066	6,333,066	6,333,066
Comptroller Operations	95,859	99,648	103,803	108,132	112,642	117,339	122,233	127,330	132,640	138,172
Treasury	263,953	269,814	276,707	283,631	290,596	297,674	304,848	312,122	319,500	326,981
General Services	507,473	524,468	542,027	560,177	578,934	598,320	618,354	639,059	660,458	682,573
Chil Service	219,022	219,643	220,266	220,890	221,517	222,145	222,774	223,406	224,039	224,675
Payroll Services	360,214	376,656	393,840	411,826	430,823	450,279	470,832	492,323	514,795	538,293
Office of Budget/Admin	20,794	16,839	17,068	15,463	14,009	12,892	11,469	10,417	9,438	8,551
Misc. Agencies	491,000	522,695	559,436	592,355	630,593	671,299	714,833	760,764	809,873	862,152
<b>SUBTOTAL</b>	<b>\$60,907,640</b>	<b>\$62,413,010</b>	<b>\$63,958,360</b>	<b>\$65,651,142</b>	<b>\$67,422,908</b>	<b>\$69,280,436</b>	<b>\$71,226,970</b>	<b>\$73,264,126</b>	<b>\$75,398,909</b>	<b>\$77,628,742</b>
<b>Privatization Transition Costs and Revenues</b>										
Proceeds from Warehouse and Inventory	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Sick and Annual Leave Payout	\$3,313,976	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Transition Store Expenses	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unemployment Payment Costs	\$3,823,267	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>SUBTOTAL</b>	<b>\$3,837,245</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>TOTAL EXPENSES</b>	<b>\$639,400,641</b>	<b>\$624,535,570</b>	<b>\$637,148,904</b>	<b>\$650,581,344</b>	<b>\$664,824,223</b>	<b>\$678,154,709</b>	<b>\$691,043,126</b>	<b>\$703,916,099</b>	<b>\$716,996,007</b>	<b>\$730,047,654</b>
<b>Drug and Alcohol Program</b>	<b>\$1,309,144</b>	<b>\$1,348,419</b>	<b>\$1,388,871</b>	<b>\$1,430,537</b>	<b>\$1,473,454</b>	<b>\$1,517,057</b>	<b>\$1,561,187</b>	<b>\$1,605,983</b>	<b>\$1,651,385</b>	<b>\$1,707,137</b>
<b>TOTAL PROFIT</b>	<b>\$110,572,856</b>	<b>\$33,927,108</b>	<b>\$32,551,140</b>	<b>\$31,345,991</b>	<b>\$29,901,759</b>	<b>\$28,620,774</b>	<b>\$27,528,800</b>	<b>\$26,495,761</b>	<b>\$25,428,900</b>	<b>\$24,328,900</b>

## Appendix II

Financial projections subject to the provisions contained in the inside cover page of this report.

## State Transfers

Wine Only, Franchise System  
High Markup

Transfers to the Commonwealth	Taxes										
	Forecast 1997	Forecast 1998	Forecast 1999	Forecast 2000	Forecast 2001	Forecast 2002	Forecast 2003	Forecast 2004	Forecast 2005	Forecast 2006	
Liquor Tax	116,165,863	117,879,696	119,717,772	121,695,907	123,827,253	126,126,687	128,611,052	131,299,443	134,213,530	137,377,938	
Gallone Tax	0	0	0	0	0	0	0	0	0	0	
Sales Tax	49,880,272	50,729,860	51,639,607	52,617,301	53,669,418	54,803,283	56,027,187	57,350,525	58,783,961	60,339,610	
Corporate Income Tax	0	0	0	0	0	0	0	0	0	0	
Tax Enforcement	-396,037	-400,058	-404,363	-408,990	-413,970	-419,336	-425,128	-431,390	-438,174	-445,536	
Police (Enforcement)	15,952,413	16,433,342	16,928,771	17,439,135	17,964,886	18,506,488	19,064,417	19,639,167	20,231,244	20,841,170	
Drug and Alcohol Program	1,309,144	1,348,419	1,388,871	1,430,537	1,473,454	1,517,657	1,563,187	1,610,083	1,658,385	1,708,137	
Profit Transfer to General Fund	110,572,856	33,827,108	32,551,140	31,345,991	29,901,759	28,620,774	27,529,800	26,659,655	26,045,781	25,728,900	
IPO Proceeds	0										
Shifted Benefits Cost											
Annuitants Hospitalization	-1,314,507	-1,346,577	-1,379,444	-1,413,127	-1,447,647	-1,483,024	-1,519,281	-1,556,440	-1,594,523	-1,633,555	
Civil Service	-197,351	-203,959	-210,788	-217,847	-225,141	-232,680	-240,471	-248,523	-256,845	-265,445	
Payroll	-85,175	-85,417	-85,659	-85,902	-86,145	-86,390	-86,635	-86,880	-87,128	-87,373	
Regulatory Costs	0	0	0	0	0	0	0	0	0	0	
<b>TOTAL: Commonwealth Transfers</b>	<b>291,887,477</b>	<b>218,182,414</b>	<b>220,145,906</b>	<b>222,403,006</b>	<b>224,663,888</b>	<b>227,353,460</b>	<b>230,524,128</b>	<b>234,235,638</b>	<b>238,556,232</b>	<b>243,563,843</b>	
Transfers to Local Government	Taxes										
	Forecast 1997	Forecast 1998	Forecast 1999	Forecast 2000	Forecast 2001	Forecast 2002	Forecast 2003	Forecast 2004	Forecast 2005	Forecast 2006	
Local Sales Tax	2,577,147	2,621,043	2,668,046	2,718,561	2,772,920	2,831,503	2,894,738	2,963,110	3,037,171	3,117,547	
License Fees to Municipalities	4,725,276	4,682,685	4,640,479	4,598,652	4,557,203	4,516,128	4,475,422	4,435,084	4,395,109	4,355,494	
<b>TOTAL: Local Government Transfers</b>	<b>7,302,423</b>	<b>7,303,728</b>	<b>7,308,525</b>	<b>7,317,213</b>	<b>7,330,123</b>	<b>7,347,631</b>	<b>7,370,160</b>	<b>7,398,194</b>	<b>7,432,280</b>	<b>7,473,041</b>	

## Wine Only, Agency Store System

### **Descriptive Statistics:**

Liquor Excise Tax: 18%

Wholesale Markup: 30% + OCC

Expected Retail Markup: -

Expected No. Retail Outlets: 665 w, 665 sp

Agent Commissions: 6% retail, 4% licensee

### **Selected Economic Impacts**

Average Impact on Spirits Prices (1st Year): -

Average Impact on Wine Prices (1st Year): -

"Up Front" Revenues: \$0

### **Revenue to Commonwealth Government - Scenario vs. Baseline (\$millions)**

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	10-yr Sum
Scenario	\$245.85	\$254.18	\$255.94	\$257.94	\$259.90	\$262.23	\$264.97	\$268.18	\$271.91	\$276.23	<b>\$2,617.35</b>
Baseline:	\$240.02	\$241.44	\$243.16	\$245.17	\$247.18	\$249.61	\$252.51	\$255.94	\$259.98	\$264.69	<b>\$2,499.71</b>
Differenc	\$5.83	\$12.74	\$12.77	\$12.77	\$12.72	\$12.62	\$12.46	\$12.24	\$11.93	\$11.55	<b>\$117.64</b>



# Privatization Analysis of the Pennsylvania Wine and Spirits Industry

## PLCB Summary

Wine Only, Agency Store System

	Forecast 1997	Forecast 1998	Forecast 1999	Forecast 2000	Forecast 2001	Forecast 2002	Forecast 2003	Forecast 2004	Forecast 2005	Forecast 2006
<b>Operating Revenue</b>										
Liquor										
License Sales	121,572,016	121,790,462	122,024,122	122,272,892	122,538,872	122,815,361	123,108,866	123,417,095	123,739,861	124,077,376
Retail Sales	297,072,839	298,452,160	299,898,765	299,325,235	294,616,083	294,347,846	293,914,066	293,516,384	293,154,342	292,827,578
LESS: Pass-through Discounts	9,909,998	9,900,374	9,892,119	9,885,116	9,878,357	9,874,823	9,871,503	9,869,365	9,868,458	9,868,710
<b>Wine</b>										
License Sales	44,857,093	46,180,537	47,725,639	48,336,246	51,015,277	52,765,785	54,590,961	56,494,140	58,478,810	60,540,615
Retail Sales	233,822,944	241,321,634	249,140,399	257,293,404	265,795,473	274,692,125	283,909,606	293,554,928	303,615,895	314,111,163
LESS: Pass-through Discounts	6,592,003	6,805,569	7,027,225	7,256,343	7,499,343	7,750,066	8,012,771	8,286,139	8,571,276	8,868,709
Bottle Pick	7,240,829	7,468,380	7,698,958	7,938,760	8,186,073	8,441,068	8,704,007	8,975,137	9,254,712	9,542,968
Special Order	15,868,801	17,975,366	20,625,306	23,669,922	27,168,824	31,189,623	35,612,336	41,126,992	47,238,460	54,287,397
<b>SUBTOTAL</b>	<b>\$703,532,524</b>	<b>\$714,480,616</b>	<b>\$726,184,845</b>	<b>\$738,693,016</b>	<b>\$752,141,501</b>	<b>\$766,596,520</b>	<b>\$782,155,591</b>	<b>\$798,926,150</b>	<b>\$817,042,445</b>	<b>\$836,037,709</b>
<b>Agency Revenue</b>										
License Fees	0	0	0	0	0	0	0	0	0	0
Retail License fees	0	0	0	0	0	0	0	0	0	0
Wholesale License fees	1,331,424	1,410,043	1,493,305	1,581,483	1,674,866	1,773,767	1,878,506	1,989,430	2,106,903	2,231,314
Application fees	808,024	815,953	823,759	831,740	839,799	847,936	856,152	864,447	872,823	881,280
Transfer fees	4,650,038	5,024,786	5,205,840	5,393,413	5,587,745	5,788,080	5,997,668	6,213,772	6,437,863	6,669,621
Permit fees	650,813	846,240	841,699	837,191	832,713	828,268	823,853	819,470	815,117	810,785
Entertainment fees	1,718,772	1,888,784	1,959,339	1,930,397	1,801,960	1,574,019	1,548,566	1,519,591	1,493,087	1,467,045
Admin fees	48,561	38,121	28,914	23,473	18,420	14,454	11,342	8,900	6,984	5,480
Bond forfeiture	0	0	0	0	0	0	0	0	0	0
Franchise Fees	0	0	0	0	0	0	0	0	0	0
Franchise Royalty Fees	4,360,178	4,920,239	5,552,240	6,265,420	7,070,208	7,976,370	9,003,184	10,159,635	11,464,832	12,937,253
Interest Income	1,166,032	1,154,969	1,124,719	1,095,262	1,066,576	1,038,842	1,011,439	984,948	959,152	934,031
Enforcement fines	1,230,439	1,325,968	1,428,908	1,539,843	1,659,390	1,788,219	1,927,049	2,076,657	2,237,881	2,411,621
Miscellaneous revenue	\$16,184,300	\$17,025,015	\$17,959,722	\$18,998,222	\$20,151,879	\$21,432,753	\$22,855,756	\$24,436,851	\$26,184,241	\$28,148,440
<b>SUBTOTAL</b>	<b>\$719,716,824</b>	<b>\$731,505,931</b>	<b>\$744,124,587</b>	<b>\$757,691,241</b>	<b>\$772,283,180</b>	<b>\$788,026,273</b>	<b>\$805,011,349</b>	<b>\$823,366,001</b>	<b>\$843,236,866</b>	<b>\$864,766,146</b>
<b>Operating Expenses</b>										
Cost of goods sold	448,531,185	457,160,851	466,373,902	476,224,637	486,774,792	498,084,053	510,261,321	523,366,055	537,509,831	552,808,123
Salaries and Benefits	8,090,097	8,234,860	8,382,283	8,532,355	8,685,185	8,840,806	8,998,288	9,160,625	9,324,831	9,492,241
Wage Employees	54,639,013	56,146,576	57,700,242	59,295,196	60,934,652	62,619,981	64,352,110	66,132,721	67,963,053	69,844,505
Salaried Employees	4,080,062	4,188,501	4,298,688	4,414,303	4,531,830	4,652,556	4,776,589	4,903,961	5,034,824	5,169,255
Management	16,960,271	19,657,895	20,394,439	21,175,935	22,008,146	22,889,513	23,831,029	24,836,308	25,911,863	27,064,307
Retail Agency Payments	35,743,526	36,494,058	37,282,223	38,109,076	38,975,738	39,883,401	40,833,336	41,826,891	42,865,501	43,950,695
<b>Store Expenses</b>	<b>\$370,044,153</b>	<b>\$381,884,842</b>	<b>\$394,432,956</b>	<b>\$407,751,501</b>	<b>\$421,908,343</b>	<b>\$438,980,191</b>	<b>\$455,053,632</b>	<b>\$470,226,560</b>	<b>\$486,609,822</b>	<b>\$503,329,124</b>
<b>SUBTOTAL</b>	<b>\$570,044,153</b>	<b>\$581,884,842</b>	<b>\$594,432,956</b>	<b>\$607,751,501</b>	<b>\$621,908,343</b>	<b>\$638,980,191</b>	<b>\$655,053,632</b>	<b>\$670,226,560</b>	<b>\$686,609,822</b>	<b>\$703,329,124</b>
<b>Agency Expenses</b>										
Stores and Purchasing Admin	13,254,227	13,849,463	14,689,116	15,476,069	16,313,395	17,204,387	18,152,472	19,161,427	20,235,192	21,377,985
Executive Expenses	1,114,655	1,153,581	1,193,016	1,235,715	1,279,033	1,323,929	1,370,462	1,418,695	1,468,694	1,520,526
Alcohol Education Expenses	868,000	891,980	918,739	946,302	974,891	1,003,931	1,034,049	1,065,071	1,097,023	1,129,934
Administrative Expenses	27,291,913	27,907,136	27,949,766	28,320,806	28,721,361	29,152,739	29,619,259	30,113,458	30,646,003	31,215,722
Warehouse Contract	16,703,030	17,014,117	17,330,998	17,653,781	17,982,575	18,317,493	18,658,849	19,006,156	19,360,140	19,720,715
Police (Enforcement)	15,952,413	16,433,342	16,928,771	17,439,135	17,964,866	18,506,488	19,064,417	19,639,167	20,231,244	20,841,170
Other Agencies	2,100,000	1,750,000	1,350,000	1,000,000	1,030,000	1,060,000	1,092,727	1,125,509	1,159,274	1,194,052
Auditor General	6,333,066	6,333,066	6,333,066	6,333,066	6,333,066	6,333,066	6,333,066	6,333,066	6,333,066	6,333,066
Comptroller Operations	95,659	99,848	103,803	108,132	112,842	117,339	122,233	127,330	132,840	138,172
Treasury	263,953	266,614	269,707	272,831	275,966	279,124	282,303	285,503	288,732	292,001
General Services	507,473	524,469	542,027	560,177	578,934	598,320	618,354	639,059	660,458	682,573
CHM Service	219,022	219,843	220,266	220,890	221,517	222,145	222,774	223,406	224,039	224,675
Payroll Services	360,214	376,656	393,848	411,826	430,623	450,279	470,832	492,323	514,795	538,293
Office of Budget/Admin	20,784	18,839	17,068	15,483	14,009	12,692	11,489	10,417	9,438	8,551
Misc. Agencies	491,000	522,695	556,436	592,355	630,593	671,299	714,633	760,784	809,873	862,152
<b>BMIS Services</b>	<b>\$85,573,410</b>	<b>\$87,161,447</b>	<b>\$88,767,527</b>	<b>\$90,568,347</b>	<b>\$92,662,931</b>	<b>\$95,253,560</b>	<b>\$97,764,019</b>	<b>\$100,400,497</b>	<b>\$103,189,811</b>	<b>\$106,076,436</b>
<b>SUBTOTAL</b>	<b>\$655,617,563</b>	<b>\$668,046,289</b>	<b>\$680,200,483</b>	<b>\$692,320,854</b>	<b>\$704,571,274</b>	<b>\$717,347,751</b>	<b>\$730,617,651</b>	<b>\$744,400,497</b>	<b>\$758,689,622</b>	<b>\$773,405,561</b>
<b>Privatization Transition Costs and Revenues</b>										
Proceeds from Warehouse and Inventory	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Sick and Annual Leave Payout	\$3,313,978	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Transition Store Expenses	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unemployment Payment Costs	\$3,523,267	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>SUBTOTAL</b>	<b>\$6,837,245</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>TOTAL EXPENSES</b>	<b>\$662,454,817</b>	<b>\$668,046,289</b>	<b>\$680,200,483</b>	<b>\$692,320,854</b>	<b>\$704,571,274</b>	<b>\$717,347,751</b>	<b>\$730,617,651</b>	<b>\$744,400,497</b>	<b>\$758,689,622</b>	<b>\$773,405,561</b>
Drug and Alcohol Program	\$1,309,144	\$1,348,410	\$1,388,871	\$1,430,537	\$1,473,454	\$1,517,057	\$1,563,187	\$1,610,003	\$1,658,385	\$1,708,137
<b>TOTAL PROFIT</b>	<b>\$55,052,662</b>	<b>\$61,111,123</b>	<b>\$59,505,210</b>	<b>\$57,022,855</b>	<b>\$56,046,453</b>	<b>\$54,277,665</b>	<b>\$52,630,511</b>	<b>\$51,126,662</b>	<b>\$49,798,668</b>	<b>\$48,970,451</b>

## Appendix II

Financial projections subject to the provisions contained in the inside cover page of this report.

## State Transfers

Wine Only, Agency Store  
System

Transfers to the Commonwealth	Forecast 1997	Forecast 1998	Forecast 1999	Forecast 2000	Forecast 2001	Forecast 2002	Forecast 2003	Forecast 2004	Forecast 2005	Forecast 2006
<b>Taxes</b>										
Liquor Tax	125,332,505	127,262,562	129,323,860	131,535,763	133,911,977	136,467,981	139,221,285	142,191,722	145,401,792	148,877,048
Galloneage Tax	0	0	0	0	0	0	0	0	0	0
Sales Tax	49,297,452	50,056,608	50,867,385	51,737,400	52,672,044	53,677,406	54,760,372	55,928,744	57,191,372	58,558,306
Corporate Income Tax	0	0	0	0	0	0	0	0	0	0
Tax Enforcement	-393,279	-396,872	-400,709	-404,826	-409,249	-414,007	-419,133	-424,662	-430,637	-437,106
Police (Enforcement)	15,952,413	16,433,342	16,928,771	17,439,135	17,964,886	18,506,488	19,064,417	19,639,167	20,231,244	20,841,170
Drug and Alcohol Program	1,309,144	1,348,419	1,388,871	1,430,537	1,473,454	1,517,657	1,563,187	1,610,083	1,658,385	1,708,137
Profit Transfer to General Fund	55,952,862	61,111,123	59,505,210	57,922,855	56,048,453	54,277,865	52,630,511	51,128,862	49,798,868	48,670,451
IPO Proceeds	0									
Shifted Benefits Cost										
Annuitants Hospitalization	-1,314,507	-1,346,577	-1,379,444	-1,413,127	-1,447,647	-1,483,024	-1,519,281	-1,556,440	-1,594,523	-1,633,555
Civil Service	-197,351	-203,959	-210,788	-217,847	-225,141	-232,680	-240,471	-248,523	-256,845	-265,445
Payroll	-85,175	-85,417	-85,659	-85,902	-86,145	-86,390	-86,635	-86,880	-87,128	-87,373
Regulatory Costs	0	0	0	0	0	0	0	0	0	0
<b>TOTAL: Commonwealth Transfers</b>	<b>245,854,064</b>	<b>254,179,229</b>	<b>255,937,496</b>	<b>257,943,989</b>	<b>259,902,631</b>	<b>262,231,296</b>	<b>264,974,252</b>	<b>268,182,072</b>	<b>271,912,528</b>	<b>276,231,633</b>
<b>Transfers to Local Government</b>										
Local Sales Tax	2,547,035	2,586,258	2,628,148	2,673,099	2,721,389	2,773,333	2,829,286	2,889,652	2,954,888	3,025,512
License Fees to Municipalities	4,725,276	4,682,685	4,640,479	4,598,652	4,557,203	4,516,128	4,475,422	4,435,084	4,395,109	4,355,494
<b>TOTAL: Local Government Transfers</b>	<b>7,272,311</b>	<b>7,268,943</b>	<b>7,268,627</b>	<b>7,271,751</b>	<b>7,278,592</b>	<b>7,289,460</b>	<b>7,304,708</b>	<b>7,324,736</b>	<b>7,349,996</b>	<b>7,381,007</b>





*Price Waterhouse*

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